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 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in 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 2019 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.

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.

Group key audit matters

Revenue recognition and contract assets

(Refer to note 2.5, regarding the accounting policy in respect of revenue recognition, note 4 in respect of critical judgements and estimates applied by the Directors note 5 to the financial statements for revenue recognition and note 22 for contract assets).

The risk

There is a risk that revenue could be materially misstated due to recognising revenue in the wrong amount. Revenue is materially impacted by changes in the contract assets balance which is subject to judgemental decisions by management. The Group has recognised revenue of £52.7m in respect of fees billed and accrued in the year.

The Group's contract assets balance at the year-end is £11.1m.

The contract assets are valued on a line by line basis using an estimated recovery rate at a point in time. The process of valuing contract assets and, in particular, estimating recovery rates, is judgemental and therefore considered to be a key audit matter.

Our response to the key audit matter included:

- assessing the reasonableness of the revenue figure in relation to both office and fee-earner numbers in comparison to prior financial years
- performing analytical review procedures to assess the change in recovery rates during the year and also to assess whether recovery rates applied in the assessment of the contract assets balance are consistent and reasonable
- 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
- reviewing the recovery rates for the year as recorded in the team sheets on a monthly basis and testing the integrity of the team sheets by agreeing the inputs back to source documents
- agreeing the accuracy 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

Acquisitions

(Refer to note 2.4 regarding the accounting policy in respect of business combinations and note 20 to the financial statements on page 105–110).

The risk

During the year the group acquired four separate entities. There are significant intangible assets arising as a result of each acquisition, including customer relationships of £12.9m and goodwill of £14.4m. In addition, there is deferred consideration arising of £4m. The determination and allocation of the purchase price, the fair value adjustments made to the assets and liabilities acquired, 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 this is therefore considered to be a key audit matter.

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 sale and control exchanged, the percentage acquired, the consideration offered and details of any deferred consideration
- confirming that the accounting treatment applied for each transaction is in accordance with relevant accounting standards
- confirming the value of material fair value adjustments to supporting evidence
- 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
- checking the calculations of the customer attrition rates used to determine the useful life of the customer relationship assets

Parent company key audit matters

We did not identify any key audit matters for the parent company.

Independent Auditor's Report continued

to the Members of Knights Group Holdings plc

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 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. During planning materiality for the group financial statements as a whole was calculated as £500,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £65,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £25,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope included the full scope audit of all components requiring a statutory audit. In aggregate, components not subject to full scope audit contributed to less than 10% of group revenue and group profit before tax and had no net assets at the period end. Analytical procedures at group level were performed for these non-significant 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 72, 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
Festival Park
Stoke on Trent
ST1 5BB

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2019

	Note	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Revenue	5	**52,662**	34,869
Other operating income	7	**415**	287
Staff costs	8	**(30,137)**	(20,449)
Depreciation and amortisation charges	11	**(1,473)**	(635)
Impairment of trade receivables and contract assets		**(439)**	(290)
Other operating charges	12	**(11,164)**	(6,935)
Non-underlying operating costs	13	**(1,847)**	(453)
Operating profit		**8,017**	6,394
Finance costs	14	**(2,776)**	(2,228)
Profit before tax		**5,241**	4,166
Taxation	16	**(1,240)**	(947)
Profit and total comprehensive income for the year attributable to equity owners of the parent		**4,001**	3,219

Earnings per share		**Pence**	Pence
Basic earnings per share	17	**5.84**	6.44
Diluted earnings per share	17	**5.81**	6.44

Consolidated Statement of Financial Position

As at 30 April 2019

	Note	30 April 2019 £'000	30 April 2018 £'000
Assets			
Non-current assets			
Intangible assets and goodwill	19	**46,444**	19,864
Property, plant and equipment	21	**3,319**	2,448
		49,763	22,312
Current assets			
Contract assets	22	**11,112**	7,447
Trade and other receivables	23	**13,671**	7,277
Cash and cash equivalents		**4,904**	2,118
		29,687	16,842
Total assets		**79,450**	39,154
Equity and liabilities			
Equity			
Share capital	24	**147**	100
Share premium	25	**32,486**	–
Merger reserve	26	**(3,536)**	(3,536)
Retained earnings	26	**10,158**	6,234
Equity attributable to owners of the parent		**39,255**	2,798
Non-current liabilities			
Borrowings	27	**19,000**	28,443
Deferred consideration	28	**1,611**	–
Deferred tax	29	**3,488**	1,384
		24,099	29,827
Current liabilities			
Trade and other payables	30	**12,105**	5,522
Deferred consideration	28	**1,628**	250
Contract liabilities	22	**120**	102
Corporation tax liability		**796**	494
Provisions	31	**1,447**	161
		16,096	6,529
Total liabilities		**40,195**	36,356
Total equity and liabilities		**79,450**	39,154

The financial statements were approved by the board and authorised for issue on 8 July 2019 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 2019

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2017		100	–	(3,536)	3,015	(421)
Profit for the period and total comprehensive income		–	–	–	3,219	3,219
Balance at 30 April 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		**47**	**32,486**	**–**	**–**	**32,533**
Dividends	18	**–**	**–**	**–**	**(433)**	**(433)**
Balance at 30 April 2019		**147**	**32,486**	**(3,536)**	**10,158**	**39,255**

Consolidated Statement of Cash Flows

For the year ended 30 April 2019

	Note	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Operating activities			
Cash generated from operations	34	**11,706**	6,523
Non-underlying operating costs paid		**(1,443)**	(453)
Interest received		**142**	112
Tax paid		**(1,076)**	(733)
Net cash from operating activities		**9,329**	5,449
Investing activities			
Acquisition of subsidiaries	20	**(15,625)**	–
Purchase of intangible fixed assets	19	**(90)**	(101)
Purchase of property, plant and equipment	21	**(1,214)**	(1,281)
Proceeds from sale of property, plant and equipment		**1**	1
Payment of deferred consideration		**(1,095)**	(200)
Net cash used in investing activities		**(18,023)**	(1,581)
Financing activities			
Proceeds from issue of share capital		**28,582**	–
Proceeds of new borrowings		**14,750**	–
Repayment of borrowings		**(24,940)**	(1,270)
Repayment of debt acquired with subsidiaries	20	**(4,443)**	–
Interest and other finance costs paid		**(2,036)**	(1,806)
Dividends paid		**(433)**	–
Net cash generated from/(used in) financing activities		**11,480**	(3,076)
Net increase in cash and cash equivalents		**2,786**	792
Cash and cash equivalents at the beginning of the period		**2,118**	1,326
Cash and cash equivalents at end of period		**4,904**	2,118

Notes to the Consolidated Financial Statements

For the year ended 30 April 2019

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 IFRSs 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 has 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 £27,000,000 available until June 2023. The Group's forecasts show sufficient cash generation, and headroom in banking and covenant facilities, in relation to anticipated future requirements to support the directors' decision to continue to adopt the going concern basis of accounting in preparing the financial statements.

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 has been owned by Knights Group Holdings plc throughout the current and preceding periods. The comparative figures include the results of the merged entity, the assets and liabilities at the previous balance sheet dates and the shares issued by Knights Group Holdings Limited as consideration as if they had always been in issue.

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 earlier date on which economic benefit or control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the earlier date that economic benefit is obtained or 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

The outstanding liabilities at 30 April 2019 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 liabilities of these subsidiaries were transferred to Knights Professional Services Limited before 30 April 2019.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

2. Accounting policies continued

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 work in progress recognised in contract assets is limited to the costs incurred, which are expected to be recoverable in respect of the matter.

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 of a single distinct performance obligation, being the provision of legal and professional services in relation to a particular matter and the transaction price is therefore allocated to this single performance obligation.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in 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 client is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the client or the Group.

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

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

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

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

2. Accounting policies continued

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	–	12–25 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 12–25 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

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 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 (transferred from accrued expenses on 1 May 2018), 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

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.

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.

2.13 Retirement benefits

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.

2.14 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

2. Accounting policies continued

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 revised IFRSs 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 had not yet been adopted by the EU:

Revised IFRS		Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9 (amendments)	Prepayment Features with Negative Compensation	1 January 2019
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, except as noted below:

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 May 2019.

The Group has chosen the simplified application of IFRS 16.

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right-of-use assets and finance costs on lease liabilities in the Consolidated Statement of Comprehensive Income;

c) Separate the total amount of cash paid into a principal portion and finance costs in the Consolidated Statement of Cash Flows.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, recognised in accruals and amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), which are exempt under IFRS16, the Group will continue to expense these costs in the Statement of Comprehensive Income as they arise.

As at 30 April 2019, the Group has non-cancellable operating lease commitments of £26,240,000. The Group will recognise an adjusted right-of-use asset of £18,868,000 and a corresponding lease liability of £20,419,000 in respect of all these leases, being the present value of future lease payments.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

3. Accounting developments continued

The derecognition of prepayments of £185,000, lease incentive accruals of £1,759,000 and a £159,000 provision for onerous lease contracts will reduce the carrying amount of right-of-use asset and offset against the lease liability.

The expected impact on profit or loss in the year ended 30 April 2020 is to decrease other operating charges by £2,084,000, to increase depreciation by £1,632,000, to reduce non-underlying costs by £126,000 and to increase finance costs by £594,000.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities.

The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £2,084,000 and to increase net cash used in financing activities by the same amount.

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 2019 was £2,201,000 (2018: £1,613,000).

Share issue and IPO

The directors consider that the issue of shares in Knights Group Holdings plc prior to its IPO was unrelated to the subsequent IPO. The directors considered carefully which costs should be allocated to the issue of the new share capital. Where costs covered both the issue of new share capital and the IPO, the directors applied judgement in determining a fair method of apportionment of these costs between the share premium account and the Statement of Comprehensive Income. The method used allocated joint costs to share premium in proportion to the percentage of the new shares issued compared to the total number of shares. A different method of apportionment may have resulted in a different allocation to the share premium account and a different expense being charged to the Statement of Comprehensive Income.

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.

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 has to take into account the progress of the case at the reporting date, and 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 £8,911,000 (2018: £5,836,000), A 5% change in the estimated recovery of all matters would impact the profit for the period by approximately £570,000.

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.

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 intangible assets arising from business combinations in the year is £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:

Key assumption	Rate applied in the financial statements	Sensitivity tested	Profit/(loss) impact £'000	Value of intangible assets £'000
Long term growth rate	3%	1%	17	(35)
WACC	16%	5%	207	479
Length of customer relationships	12–25 years	10%	62	(132)
Profitability	-	5%	(97)	(132)

The growth rate was determined using 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 the carrying value is still supported by the cash flows from the CGU.

5. Revenue

All revenue is derived from contracts with clients 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 2019 is not required to be disclosed because it is comprised of contracts that are expected to have a duration of one year or less.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

6. Segmental reporting

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

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

7. Other operating income

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Other income	253	166
Bank interest	162	121
	415	287

8. Staff costs

The average monthly number of employees (including executive directors) of the Group was:

	Year ended 30 April 2019 Number	Year ended 30 April 2018 Number
Fee earners	430	349
Other employees	123	86
	553	435

Their aggregate remuneration comprised:

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Wages and salaries	26,284	18,376
Social security costs	2,792	1,960
Other pension costs	614	327
Other employment costs	628	273
Aggregate remuneration of employees	30,318	20,936
One off redundancy costs analysed as non-underlying costs (note 13)	(712)	(119)
Movement in contract assets relating to staff costs	(73)	(368)
Members' costs	604	–
Underlying staff costs in income statement	30,137	20,449

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 2019 £'000	Year ended 30 April 2018 £'000
Salaries, fees, bonuses and benefits in kind	444	110
Money purchase pension contributions	5	12
	449	122

The number of directors to whom benefits are accruing under money purchase pension schemes is 3 (2018: 3).

The remuneration of the highest paid director was:

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Salaries, fees, bonuses and benefits in kind	142	104
Money purchase pension contributions	1	12
	143	116

The comparatives above relate to the directors of Knights 1759 Limited, the former parent company of the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

9. Share-based payments

The Group issues equity-settled share-based payments to its employees. The Group recognised total expenses of £356,000 (2018: £nil) 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	
	Number	Weighted average exercise price Pence
Outstanding at 1 May 2017 and 30 April 2018	–	–
Granted during the period	451,845	0.2
Outstanding at 30 April 2019	**451,845**	**0.2**
Exercisable at 30 April 2019	**–**	**–**

	Performance share awards	
	Number	Weighted average exercise price Pence
Outstanding at 1 May 2017 and 30 April 2018	–	–
Granted during the period	63,352	0.2
Outstanding at 30 April 2019	**63,352**	**0.2**
Exercisable at 30 April 2019	**–**	**–**

The options outstanding at 30 April 2019 had a weighted average exercise price of 0.2p and a weighted average remaining contractual life of 2.1 years. In the period, 379,308 options were granted on 29 June 2018, 68,210 options were granted on 30 November 2018, 4,327 on 1 February 2019 and 63,352 on 29 March 2019.

The aggregate of the estimated fair values of the options granted on these dates is £861,000. The inputs into the Black-Scholes model are as follows:

Weighted average share price	169p
Weighted average exercise price	0.2p
Weighted average expected volatility	28.1%
Weighted average expected life	2.7 years
Risk-free rate	1.5%
Expected dividend yield	1.1%

Expected volatility on 29 June 2018 was determined by using the historical data of comparable quoted companies because there was no historical data for the Company at that date. Expected volatility at 30 November 2018, 1 February 2019 and 29 March 2019 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.

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 1 May 2017 and 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**
Unrestricted at 30 April 2019	**204,173**	**–**

The aggregate fair value of the matching shares was calculated at £846,000 using the observed share price at the grant date with regard to the non-vesting requirement of holding the partnership shares.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

9. Share-based payments continued

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 in November 2018. Under the scheme, members save a fixed amount each month for three years. Subject to remaining in employment by the Group, at the end of the three-year period they are entitled to use these savings to buy shares in the Company at 80% of the market value at launch date.

	SAYE options	
	Number	Weighted average exercise price Pence
Outstanding at 1 May 2017 and 30 April 2018	–	–
Granted during the period	900,785	162
Forfeited during the period	(4,350)	–
Outstanding at 30 April 2019	**896,435**	**–**
Exercisable at 30 April 2019	**–**	**–**

The options outstanding at 30 April 2019 had a weighted average exercise price of 162p and a weighted average remaining contractual life of 3 years. In the period, 900,785 options were granted on 21 December 2018. 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%

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 1 May 2017 and 30 April 2018	–	–
Granted during the period	706,897	1.7
Outstanding at 30 April 2019	**706,897**	**1.7**
Exercisable at 30 April 2019	**–**	**–**

This transaction results in no change to profit, assets, liabilities or overall equity of the Group.

10. Retirement benefit schemes

The Group operates a defined contribution pension scheme for employees. The total cost charged to income of £614,000 (2018: £327,000) represents contributions payable to the scheme by the Group. As at 30 April 2019, contributions of £207,000 (2018: £95,000) due in respect of the reporting period had not been paid over to the schemes.

11. Depreciation and amortisation charges

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Depreciation	**702**	406
Amortisation	**757**	199
Loss on disposal of property, plant and equipment	**14**	30
	1,473	635

12. Other operating charges

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Establishment costs	**3,184**	2,007
Other overhead expenses	**7,980**	4,928
	11,164	6,935

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

13. Non-underlying operating costs

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Redundancy costs	**712**	119
Transaction costs	**602**	334
Share based payment charges	**300**	–
Contingent consideration	**233**	–
	1,847	453

Non-underlying costs relate to redundancy costs to streamline the support function of the Group; transaction costs in respect of acquisitions, the placing of existing 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 one to three years and are designed to preserve the value of goodwill and customer relationships acquired in the business combinations. IFRS requires such arrangements to be treated as remuneration and charged to the Statement of Comprehensive Income. The individuals also receive market rate salaries for their work, in line with other similar members of staff in the Group. The contingent earnout payments are significantly in excess of these market salaries and would distort the Group's results if not separately identified.

14. Finance costs

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Interest on borrowings	**734**	2,228
Exit and release of arrangement fees arising on the repayment of debt at the IPO	**1,924**	–
Interest on deferred consideration	**114**	–
Other interest payable	**4**	–
	2,776	2,228

15. Auditor's remuneration

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Fees payable to the parent company's auditor and their associates for the audit of the parent company's annual accounts	**21**	14
Fees payable to the auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**38**	10
Total audit fees	**59**	24
– Audit-related assurance services	**21**	7
– Taxation advisory services	**7**	–
– Corporate finance services	**80**	–
– Other advisory services	**63**	2
Total non-audit fees	**171**	9

In addition to the above, £95,000 of non audit costs relating to corporate finance services have been charged to the share premium account in the year.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

16. Taxation

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Corporation tax:		
Current year	**1,327**	955
Adjustments in respect of prior years	**–**	(8)
	1,327	947
Deferred tax:		
Origination and reversal of temporary differences	**(87)**	–
Tax expense for the year	**1,240**	947

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

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Profit before tax	**5,241**	4,166
Tax at the UK corporation tax rate of 19% (2018: 19%)	**995**	792
Expenses that are not deductible in determining taxable profit	**245**	179
Adjustment in respect of prior years	**–**	(8)
Effect of changes in tax rates	**–**	(16)
Tax expense for the year	**1,240**	947

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

	Year ended 30 April 2019			Year ended 30 April 2018		
	Total £'000	**Underlying £'000**	**Non-Underlying £'000**	Total £'000	Underlying £'000	Non-Underlying £'000
Profit before tax	**5,241**	**9,819**	**(4,578)**	4,166	4,818	(652)
Tax expense	**1,240**	**1,678**	**(438)**	947	976	(29)
Effective rate of tax	**24%**	**17%**	**(10%)**	23%	20%	(4%)

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 2019 Number	Year ended 30 April 2018 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**68,533,094**	50,000,000
Effect of dilutive potential ordinary shares:		
Share options	**194,389**	–
Warrants	**117,350**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**68,844,833**	50,000,000

	£'000	£'000
Profit after tax	**4,001**	3,219
Earnings per share	**Pence**	Pence
Basic earnings per share	**5.84**	6.44
Diluted earnings per share	**5.81**	6.44

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 2019 £'000	Year ended 30 April 2018 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 30 April 2019 of 0.6p per share	**433**	–
	433	–
Proposed final dividend for the year ended 30 April 2019 of 1.27p per share	**931**	–

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 30 August 2019. The total estimated dividend to be paid is 1.27p per share. The payment of this dividend will not have any tax consequences for the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

19. Intangible assets and goodwill

	Goodwill £'000	Brand £'000	Customer relationships £'000	Purchased computer software £'000	Total £'000
Cost					
As at 1 May 2017	12,244	5,401	2,496	155	20,296
Additions	–	–	–	101	101
As at 30 April 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**
Amortisation and impairment					
As at 1 May 2017	–	108	168	58	334
Amortisation charge	–	54	100	45	199
As at 30 April 2018	**–**	**162**	**268**	**103**	**533**
Amortisation charge	**–**	**54**	**639**	**64**	**757**
As at 30 April 2019	**–**	**216**	**907**	**167**	**1,290**
Carrying amount					
At 30 April 2019	**26,607**	**5,185**	**14,473**	**179**	**46,444**
At 30 April 2018	12,244	5,239	2,228	153	19,864
At 1 May 2017	12,244	5,293	2,328	97	19,962

The carrying amount of goodwill has been allocated to the single cash generating unit (CGU) present in the business, which is the provision of legal and professional services.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 3 years and extrapolates cash using a terminal value calculation based on an estimated growth rate of 3% (2018: 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 legal and professional services. 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 growth rates are based on UK economic growth forecasts for the legal services market.

The rate used to discount the forecast cash flows is 16.6% (2018: 20%).

The Group has conducted a sensitivity analysis on the impairment test of the CGU carrying value. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of goodwill is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

20. Acquisitions

Acquisitions summary

During the year the Group has completed four 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	10,712
Goodwill	14,363
Total consideration	25,075
Satisfied by:	
Cash	16,225
Less: cash consideration treated as remuneration	(600)
	15,625
Equity instruments (1,978,031 ordinary shares of Knights Group Holdings plc)	3,950
Deferred consideration arrangement	4,000
Retention and settlement payment	1,500
Total consideration transferred	25,075
Net cash outflows arising on acquisition:	
Cash consideration	15,625
Net investing cash out flow arising on acquisition	15,625
Repayment of loans net of cash acquired	4,443
Net financing cash outflow arising on acquisition	4,443

Details for the individual acquisitions are included below.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

20. Acquisitions continued

Turner Parkinson LLP

On 18 May 2018, the Group exchanged contracts to acquire Turner Parkinson LLP, with economic benefit from 1 May 2018, through the agreement to purchase the controlling membership interests of the entity. The acquisition completed on 29 June 2018. Turner Parkinson LLP is a law firm based in Manchester and it was acquired to assist the Group in entering the Manchester 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	43	4,100	4,143
Property, plant and equipment	562	(387)	175
Contract assets	491	–	491
Trade and other receivables	1,725	–	1,725
Cash and cash equivalents	1,059	–	1,059
Liabilities			
Trade and other payables	(673)	(163)	(836)
Borrowings	(101)	–	(101)
Members' interests classified as a liability	(3,106)	–	(3,106)
Provisions	–	(95)	(95)
Deferred tax	–	(704)	(704)
Total identifiable assets and liabilities	**–**	2,751	2,751
Goodwill			8,180
Total consideration			10,931
Satisfied by:			
Cash			5,931
Equity instruments (689,655 ordinary shares of Knights Group Holdings plc)			1,000
Deferred consideration arrangement			4,000
Total consideration transferred			10,931
Net cash outflow arising on acquisition:			
Cash consideration			5,932
Repayment of loans net of cash acquired			2,148
Net cash outflow arising on acquisition			8,080

The goodwill of £8,180,000 arising from the acquisition consists of 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 IPO admission price.

Future payments under the deferred consideration arrangement are £4,000,000. This deferred consideration attracts interest at a rate of 3.5% per annum. £875,000 of the deferred consideration was paid in the year, £1,562,500 is due on 1 May 2019 and the remaining £1,562,500 on 1 May 2020.

Economic benefit was attained as at 1 May 2018 therefore a full year's revenue and profit is represented within the accounts. Turner Parkinson LLP contributed £7,555,000 of revenue to the Group's Statement of Comprehensive Income for the period 1 May 2018 to 30 April 2019. 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 22 August 2018.

Spearing Waite LLP

On 8 October 2018, the Group obtained control of Spearing Waite LLP through the agreement to purchase the controlling membership interests of the entity. Spearing Waite LLP is a law firm based in Leicester and it was acquired to assist the Group in entering the Leicester 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	–	3,091	3,091
Property, plant and equipment	209	(25)	184
Contract assets	795	–	795
Trade and other receivables	1,455	–	1,455
Cash and cash equivalents	2,053	–	2,053
Liabilities			
Trade and other payables	(639)	(162)	(801)
Borrowings	(478)	–	(478)
Members' interests classified as a liability	(3,263)	–	(3,263)
Provisions	(132)	–	(132)
Deferred tax	–	(525)	(525)
Total identifiable assets and liabilities	–	2,379	2,379
Goodwill			3,071
Total consideration			5,450
Satisfied by:			
Cash			5,250
Equity instruments (97,208 ordinary shares of Knights Group Holdings plc)			200
Total consideration transferred			5,450
Net cash outflow arising on acquisition:			
Cash consideration			5,250
Repayment of loans net of cash acquired			1,669
Net cash outflow arising on acquisition			6,919

The goodwill of £3,071,000 arising from the acquisition consists of 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 five 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 3 year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £1,065,000.

Economic benefit was attained as at 1 October 2018. Spearing Waite LLP contributed £4,089,000 revenue to the Group's Statement of Comprehensive Income for the period 1 October 2018 to 30 April 2019. 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 1 December 2018.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

20. Acquisitions continued

Cummins Solicitors Limited

On 14 January 2019, the Group obtained control of Cummins Solicitors Limited through the agreement to purchase the shares of the entity. Cummins Solicitors Limited is an employment law firm based in Leicester and was acquired to enable the Group to expand its offering in the Leicester 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	–	764	764
Property, plant and equipment	6	(6)	–
Contract assets	3	–	3
Trade and other receivables	134	–	134
Cash and cash equivalents	223	–	223
Liabilities			
Trade and other payables	(82)	(4)	(86)
Borrowings	(29)	–	(29)
Corporation tax liability	(51)	–	(51)
Provisions	–	(45)	(45)
Deferred tax	–	(130)	(130)
Total identifiable assets and liabilities	204	579	783
Goodwill			190
Total consideration			973
Satisfied by:			
Cash			1,323
Equity instruments (125,318 ordinary shares of Knights Group Holdings plc)			250
Contingent consideration			(600)
Total consideration transferred			973
Net cash outflow arising on acquisition:			
Cash consideration			722
Repayment of loans net of cash acquired			(201)
Net cash outflow arising on acquisition			521

The Group has the right to claw-back up to £600,000 of this cash consideration transferred if the seller voluntary resigns from his employment in the Group within a two year period post acquisition. Since this is contingent on the seller remaining in employment, IFRS 3:B55(a) requires this to be excluded from the consideration of the business combination and this is expensed as remuneration for post-combination services and is recognised as a non-underlying operating cost.

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 five days prior to completion.

Economic benefit was attained as at 1 January 2019. Cummins Solicitors Limited contributed £222,000 revenue to the Group's Statement of Comprehensive Income for the period 1 January 2019 to 30 April 2019. 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 1 February 2019.

BrookStreet des Roches LLP

On 1 April 2019, the Group obtained control of BrookStreet des Roches LLP through the agreement to purchase the controlling membership interests of the entity. BrookStreet des Roches LLP is a leading independent commercial law firm in Oxford with a strong reputation nationally for its real estate practise. It was acquired so the Group could expand its offering in the Oxford 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	–	4,886	4,886
Property, plant and equipment	20	(5)	15
Contract assets	588	–	588
Trade and other receivables	1,971	–	1,971
Cash and cash equivalents	530	–	530
Liabilities			
Trade and other payables	(1,753)	980	(773)
Borrowings	(213)	–	(213)
Members interest classed as a liability	(1,143)	–	(1,143)
Provisions	–	(231)	(231)
Deferred tax	–	(831)	(831)
Total identifiable assets and liabilities	–	4,799	4,799
Goodwill			2,922
Total consideration			7,721
Satisfied by:			
Cash			3,721
Retention and settlement payments payable			1,500
Equity instruments (1,065,850 ordinary shares of Knights Group Holdings plc)			2,500
Total consideration transferred			7,721
Net cash outflow arising on acquisition:			
Cash consideration			3,721
Repayment of loans net of cash acquired			827
Net cash outflow arising on acquisition			4,548

The goodwill of £2,922,000 arising from the acquisition consists of 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 five days prior to exchange.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight line basis. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £2,500,000.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

20. Acquisitions continued

£500,000 was retained from the completion monies as a retention in accordance with the completion mechanism and is payable on agreement of Completion accounts. As part of the acquisition agreement for BrookStreet des Roches LLP, the vendors agreed to settle the costs of surrendering the lease on the office premises occupied by the firm which the Group was not prepared to acquire. The lease surrender settlement was agreed at £2 million, of which £1 million was settled by the vendors from the consideration they received on completion, with the remaining £1 million to be paid by the Group, and included as deferred consideration in the fair value of consideration payable, over a period of up to three years.

BrookStreet des Roches LLP contributed £542,000 revenue to the Group's Statement of Comprehensive Income for the period 1 April 2019 to 30 April 2019. 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 1 April 2019.

21. Property, plant and equipment

	Expenditure on short leasehold property £'000	Office equipment £'000	Furniture and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 May 2017	790	946	444	5	2,185
Additions	770	227	284	–	1,281
Transfers	(148)	19	129	–	–
Disposals	(11)	–	(32)	–	(43)
As at 30 April 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**
Depreciation and impairment					
As at 1 May 2017	85	400	91	5	581
Depreciation charge	87	243	76	–	406
Eliminated on disposal	(3)	–	(9)	–	(12)
As at 30 April 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**
Carrying amount					
At 30 April 2019	**1,600**	**982**	**737**	**–**	**3,319**
At 30 April 2018	1,232	549	667	–	2,448
At 1 May 2017	705	546	353	–	1,604

22. Contract assets and liabilities

	Contract assets £'000	Trade receivables £'000	Contract liabilities £'000
As at 30 April 2019	**11,112**	**10,720**	**(120)**
As at 30 April 2018	7,447	5,732	(102)
As at 1 May 2017	5,908	5,843	(110)

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 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 it's 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 2019 was £2,201,000 (2018: £1,612,000)

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 limited to the costs incurred which are expected to be recoverable.

During the year, contract assets of £1,877,000 (2018:£nil) were acquired in business combinations.

An impairment loss of £57,000 has been recognised in prepayments (relating to contract assets) in the year (2018: £nil). This is based on the historical credit loss experience of these types of assets. The contract asset loss is estimated at 0.55% of the balance.

Trade receivables

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

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

Contract liabilities

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

23. Trade and other receivables

	30 April 2019 £'000	30 April 2018 £'000
Trade receivables	**10,960**	5,806
Impairment provision – Trade receivables	**(240)**	(74)
Prepayments and other receivables	**3,008**	1,545
Impairment provision – Prepayments and other receivables	**(57)**	–
	13,671	7,277

Trade receivables

The average credit period taken on sales is 38 days as at 30 April 2019. No interest is charged on trade receivables.

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 2019	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	**0.66%**	**0.66%**	**2.30%**	**1.60%**	**17.36%**	**2.05%**
Estimated total gross carrying amount £'000	**5,412**	**2,584**	**826**	**250**	**720**	**9,792**
Lifetime ECL £'000	**36**	**17**	**19**	**4**	**125**	**201**

In addition to the above on trade receivables a further £39,000 (2018: £nil) 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 0.8% against the remainder of the balance based upon the historical credit loss experience of this type of asset.

An impairment loss of £57,000 has been recognised on contract assets in the year (2018: £nil). This is based on the historical credit loss experience of these types of assets. The contract asset loss is estimated at 0.55%.

Other receivables

As at 30 April 2019 other receivables includes £513,000 (2018: £nil) of consideration paid in advance relating to the acquisition of Cummins Solicitors Limited which is contingent on continued employment over a two year period. This is being released to the Statement of Comprehensive Income over the two year period.

24. Share capital

	Ordinary shares Number	Ordinary shares £'000
As at 1 May 2017	100,000	100
Changes during the period	–	–
As at 30 April 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 (see note below)	–	–
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
At 30 April 2019	**73,325,419**	**147**

The comparative figure in the Statement of Financial Position relates to the 100,000 shares issued by the Company in exchange for the entire issued share capital of Knights 1759 Limited in accordance with the merger accounting policy explained in note 2.

25. Share premium

	£'000
As at 1 May 2017 and 30 April 2018	–
Premium arising on issue of equity shares	34,327
Expenses of issue of equity shares	(1,841)
At 30 April 2019	**32,486**

26. Reserves

	Merger reserve £'000	Retained earnings £'000
At 1 May 2017	(3,536)	3,015
Profit for the period and total comprehensive income	–	3,219
Balance at 30 April 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	**–**	**(433)**
Balance at 30 April 2019	**(3,536)**	**10,158**

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

27. Borrowings

	30 April 2019 £'000	30 April 2018 £'000
Secured borrowings at amortised cost:		
Bank loans	**19,000**	5,750
Other loan	**–**	22,693
Total borrowings	**19,000**	28,443
Amount due for settlement within 12 months	**–**	–
Amount due for settlement after 12 months	**19,000**	28,443

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

The Group has a credit facility of £27,000,000 in total (2018: £10,000,000) compromising term debt and revolving credit facilities. The current facility was initially taken out on 25 June 2018 and amended on 27 March 2019. The revolving credit facility is renewed each month and is due for final repayment on 25 June 2023. The term debt is due for repayment on 25 June 2023 or earlier if the agreed covenants are breached. 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 1.85% and 2.45% depending on the leverage level. A commitment fee of 35% of the applicable margin is payable on the undrawn amounts.

The other loan of £22,693,000 held at 30 April 2018 was due for repayment on 6 October 2023. Cash interest was payable on the other loan in quarterly instalments at a rate of 5% above LIBOR. Payment in kind interest accrued at a rate of 1.9% annually. If not paid quarterly, the payment in kind interest was capitalised and due for repayment on 6 October 2023. This loan was secured by a fixed and floating charge over the assets of the Group. This loan was repaid in the year ended 30 April 2019.

28. Deferred consideration

	30 April 2019 £'000	30 April 2018 £'000
Non-current liabilities		
Deferred consideration	**1,611**	–
	1,611	–
Current liabilities		
Deferred consideration	**1,628**	250
	1,628	250

The deferred consideration balance of £250,000 at 30 April 2018 related to the Group restructure and refinancing exercise completed in October 2016. This was settled during the year ended 30 April 2019.

Deferred consideration as at 30 April 2019 relates to the acquisition of Turner Parkinson LLP and is not contingent. The total deferred consideration was £4,000,000 of which £875,000 was paid during the year ended 30 April 2019.

In addition the Group has £146,000 of contingent consideration accrued and included within trade and other payables relating to the acquisition of Spearing Waite LLP. 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.

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	Total £'000
As at 1 May 2017	79	1,305	–	1,384
Charge/(credit) for the year	30	(30)	–	–
As at 30 April 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**

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 2019 £'000	30 April 2018 £'000
Deferred tax assets	**(60)**	–
Deferred tax liabilities	**3,548**	1,384
	3,488	1,384

30. Trade and other payables

	30 April 2019 £'000	30 April 2018 £'000
Trade payables	**1,442**	985
Other taxation and social security	**3,511**	1,531
Other payables	**1,868**	1,153
Accruals	**5,284**	1,853
	12,105	5,522

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days. 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 2019

31. Provisions

	Dilapidation provision £'000	Onerous contract provision £'000	Professional Indemnity provision £'000	Total £'000
As at 1 May 2017	151	–	–	151
Additional provision in the year	10	–	–	10
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**

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.

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 2019 £'000	30 April 2018 £'000
Financial assets		
Amortised cost		
Contract assets	**11,112**	7,447
Trade and other receivables (excluding prepayments)	**11,706**	5,732
Cash and cash equivalents	**4,904**	2,118
Financial liabilities		
Amortised cost		
Borrowings	**19,000**	28,443
Deferred consideration	**3,239**	250
Trade and other payables	**8,448**	3,991
Fair value		
Trade and other payables	**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 2019 would decrease/increase by £95,000 (2018: decrease/increase by £146,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

32. Financial instruments continued

Liquidity risk

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

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

Contractual maturities of financial liabilities

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**

30 April 2018	< 1 year £'000	1–2 years £'000	2–5 years £'000	Total £'000
Borrowings	–	–	28,443	28,443
Deferred consideration	250	–	–	250
Trade and other payables	3,991	–	–	3,991

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 object 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 2019 £'000	30 April 2018 £'000
Borrowings (note 27)	**19,000**	28,443
Cash and cash equivalents	**(4,904)**	(2,118)
Net debt	**14,096**	26,325
Equity	**39,255**	2,798
	%	%
Net debt to equity ratio	**36**	941

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 2019 there is a capital commitment of £425,000 (2018: £278,000) in relation to an ongoing office refurbishment.

34. Reconciliation of profit to net cash generated from operations

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Profit before taxation	**5,241**	4,166
Adjustments for:		
Amortisation	**757**	199
Depreciation	**702**	406
Loss on disposal of equipment	**14**	30
Contingent consideration not payable	**(30)**	–
Contingent consideration expense	**233**	–
Non-underlying operating costs	**1,314**	453
Share based payments	**356**	-
Interest income	**(162)**	(121)
Interest expense	**2,776**	2,228
Operating cash flows before movements in working capital	**11,201**	7,361
Increase in contract assets	**(1,788)**	(1,539)
(Increase)/decrease in trade and other receivables	**(1,171)**	325
Increase in provisions	**782**	9
Increase/(decrease) in contract liabilities	**18**	(8)
Increase in trade and other payables	**2,664**	375
Cash generated from operations	**11,706**	6,523

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 2018	28,443
Repayment of borrowings	(24,940)
New loans taken out	14,750
Non-cash changes:	
Release of arrangement fee	747
As at 30 April 2019	**19,000**

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

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 provided below.

a) Underlying EBITDA

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

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Operating profit	8,017	6,394
Depreciation and amortisation charges	1,473	635
Non-underlying costs (note 13)	1,847	453
Underlying EBITDA	**11,337**	7,482

b) Underlying profit before tax (PBT)

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

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Profit before tax	5,241	4,166
Amortisation (adjusted for amortisation on computer software)	693	199
Non-underlying costs (note 13)	1,847	453
Non-recurring finance costs	2,038	–
Underlying profit before tax	**9,819**	4,818

Non-recurring finance costs relate to exit fees and arrangement fees expensed due to the refinancing of the Group during the year and accrued interest on deferred consideration.

c) Underlying profit after tax (PAT) and 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 2019 £'000	Year ended 30 April 2018 £'000
Profit after tax	4,001	3,219
Amortisation (adjusted for amortisation on computer software)	693	199
Non-underlying operating costs	1,847	453
Non-recurring finance costs	2,038	–
Tax in respect of the above	(438)	(29)
Underlying profit after tax	**8,141**	3,842

Adjusted earnings per share	**Pence**	Pence
Basic adjusted earnings per share	11.88	7.68
Diluted adjusted earnings per share	11.83	7.68

Tax has been calculated at the corporation tax of 19% or deferred tax rate of 17% on the relevant adjusting items.

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, interest paid and net cash flows on capital expenditure after excluding cash flows in respect of non-underlying costs. 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 2019 £'000	Year ended 30 April 2018 £'000
Cash generated from operations (note 34)	11,706	6,523
Adjustment for contingent earn out consideration paid in advance	600	-
Interest received	142	112
Tax paid	(1,076)	(733)
Net cash from underlying operating activities	**11,372**	5,902
Interest paid	(745)	(1,806)
Net capital expenditure	(1,303)	(1,381)
Free cash flow	**9,324**	2,715
Adjusted profit after tax	8,141	3,842
Cash conversion (%)	**115%**	71%

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2019

37. Operating lease arrangements

The Group as lessee

	Year ended 30 April 2019 £'000	Year ended 30 April 2018 £'000
Lease payments under operating leases recognised as an expense in the year	**2,104**	1,172

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	30 April 2019 £'000	30 April 2018 £'000
Within one year	**2,302**	1,627
In the second to fifth year inclusive	**9,408**	5,683
After five years	**14,530**	13,855
	26,240	21,165

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

38. 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 £343,000 (2018: £343,000) were charged by KPV Propco Ltd to the Group.

The Group received a contribution for repair work in the year from KPV Propco Ltd of £nil (2018: £86,000).

During the year, the Group received cash of £nil (2018: £616,000) from KPV Propco Ltd. At 30 April 2019, there was an amount of £128,000 (2018: £127,896) 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 2019 £'000	Year ended 30 April 2018 £'000
Short-term employee benefits	**829**	244
Pension costs	**14**	21
Share-based payments	**106**	–
	949	265

Key management personnel includes board members and directors.

Transactions with directors

Dividends totalling £202,000 (2018: £nil) 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 2019

	Note	30 April 2019 £'000
Assets		
Non-current assets		
Investments in subsidiaries	42	**356**
Amounts receivable from subsidiaries	43	**34,010**
		34,366
Current assets		
Trade and other receivables		**14**
Total assets		**34,380**
Equity and liabilities		
Equity		
Share capital	44	**147**
Share premium	44	**32,486**
Share based payment reserve	45	**356**
Other reserve	45	**(100)**
Retained earnings	45	**1,363**
Equity attributable to owners of the Company		**34,252**
Current liabilities		
Trade and other payables		**1**
Corporation tax liability		**127**
Total liabilities		**128**
Total equity and liabilities		**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 392 day period ended 30 April 2019 of £1,796,000.

The financial statements were approved by the board and authorised for issue on 8 July 2019 and are signed on its behalf by:

Kate Lewis
Director

Registered No. 11290101

Company Statement of Changes in Equity

For the period ended 30 April 2019

	Share capital £'000	Share premium £'000	Share-Based Payments £'000	Other reserve £'000	Retained earnings £'000	Total £'000
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)
Balance at 30 April 2019	147	32,486	356	(100)	1,363	34,252

Notes to the Company Financial Statements

39. 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.

40. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 39, 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.

41. Profit for the year

As permitted by s408 of the Companies Act 2006, no separate profit and loss account or 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 and non-executive directors and was 6. Their aggregate remuneration borne by the Company was £nil.

42. Investments in subsidiaries

	£'000
Cost and net book value	
At 4 April 2018	–
Capital contribution in respect of equity-settled share-based payments	356
At 30 April 2019	**356**

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

Notes to the Company Financial Statements continued

42. Investments in subsidiaries continued

Details of the Company's subsidiaries at 30 April 2019 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	99.9%**	99.9%**
Spearing Waite LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.9%**	99.9%**
Darbys Solicitors LLP	Midland House West Way, Botley, Oxford, OX2 0PH	Dormant	N/A	99.9%**	99.9%**
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	Dormant	N/A	99.9%**	99.9%**
BSDR Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
BSDR Corporate Services Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
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%
Turner Parkinson Solicitors Ltd.	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%
Darbys Director Services Limited	Midland House West Way, Botley, Oxford, OX2 0PH	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	Knights Plc, 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%***

* Held directly by Knights Group Holdings plc

** The group holds 99.9% ownership interest with David Beech owning the remaining 0.01% to allow these entities to retain their LLP status

*** Legal title held on behalf of a nominee

The acquired entities, as detailed in note 20, were active during the financial year, but all dormant as at 30 April 2019.

Notes to the Company Financial Statements continued

43. Amounts receivables from subsidiaries

	30 April 2019 £'000
Amounts receivable from subsidiaries	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 against amounts receivable from subsidiaries.

44. Share capital and share premium account

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

45. 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.

46. Related party transactions

During the year, the Company issued 65,000 of its ordinary £1 shares to acquire 65,000 ordinary £1 shares of Knights 1759 Limited from Mr DA Beech, a person with significant influence over the Company and a member of key management personnel.

Glossary of Terms

Alternative 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 2019 £'000	Year ended 30 April 2018 £'000
Operating profit	8,017	6,394
Depreciation and amortisation charges	1,473	635
Non-underlying costs (note 13)	1,847	453
Underlying EBITDA	11,337	7,482

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 2019 £'000	Year ended 30 April 2018 £'000
Profit before tax	5,241	4,166
Amortisation	693	199
Non-underlying costs	1,847	453
Non-underlying finance costs	1,924	–
Effective interest on deferred consideration	114	–
Underlying profit before tax	**9,819**	**4,818**

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 2019 £'000	Year ended 30 April 2018 £'000
Exit fees and release of arrangement fees	1,924	–
Interest on deferred consideration	114	–
Non-recurring finance costs	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 2019 £'000	Year ended 30 April 2018 £'000
Profit after tax	4,001	3,219
Amortisation on acquisition related intangibles	693	199
Non-underlying operating costs	1,847	453
Non-underlying finance costs	1,924	–
Effective interest on deferred consideration	114	–
Tax in respect of the above	(438)	(29)
Underlying profit after tax	8,141	3,842
Adjusted earnings per share	**Pence**	**Pence**
Basic adjusted earnings per share	11.88	7.68
Diluted adjusted earnings per share	11.83	7.68

Glossary of Terms continued

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, interest paid and net cash flows on capital expenditure after excluding cash flows in respect of non-underlying costs. 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 2019 £'000	Year ended 30 April 2018 £'000
Cash generated from operations (note 34)	11,706	6,523
Adjustment for contingent earn out consideration paid in advance	600	–
Interest received	142	112
Tax paid	(1,076)	(733)
Net cash from underlying operating activities	11,372	5,902
Interest paid	(745)	(1,806)
Net capital expenditure	(1,303)	(1,381)
Free cash flow	9,324	2,715
Adjusted profit after tax	8,141	3,842
Cash conversion (%)	**115%**	**71%**

Working Capital

Working capital is calculated as:

	30 April 2019 £'000	30 April 2018 £'000
Current assets		
Contract assets	**11,112**	7,447
Trade and other receivables	**13,671**	7,277
	24,783	14,724
Current liabilities		
Trade and other payables	**12,105**	5,522
Contract liabilities	**120**	102
Corporation tax liability	**796**	494
	13,021	6,118
	11,762	8,606

Other Definitions

Colleague/Talent Retention/Employee Turnover

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

Fee Earner Concentration

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

Client Concentration

On an individual basis this is calculated as the percentage of total turnover for the financial year that arises from fees of the largest client.

For the top 10 client concentration calculation this takes the fee income from the 10 largest clients for the year as a percentage of the total turnover for the year.

Client Satisfaction

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

Colleague Satisfaction

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

Fee Earners

When referring to the number of fee earners in the Group we include all individuals working in the Group on a mainly fee earning basis. This includes professionals (legal and non-legal) of all levels including paralegals, trainees and legal assistants.

When referring to the number of fee earners in the business this will refer to the absolute number of individuals working in the Group.

When using the number of fee earners to calculate the average fees or profit per fee earner or the ratio of fee earners to support staff these calculations are based on the number of full-time equivalent (FTE) individuals to reflect that a number of individuals choose to work on a part-time basis.

Non Fee Earners/Support Staff

This includes all employees that are not fee earning.

Recurring Revenue

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

Lock Up

This is calculated as the combined debtor and WIP days as at a point in time.

Debtor days are calculated on a count back basis using the gross debtors at the period end and compared to 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 2019	**£2.830**
Share price at listing	(£1.450)
Dividend paid in period	£0.006
Gain on shares in period	£1.386
As a percentage of opening price	95.6%

Notice of Annual General Meeting

Notice is given that the first Annual General Meeting of the above named Company will be held at the Group's registered offices of The Brampton, Newcastle-under-Lyme, Staffordshire ST5 0QW on 24 September 2019 at 9.30am for the following purposes.

Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive the Group's audited accounts for the financial year ended 30 April 2019 together with the report of the Directors, the Strategic Report and the Auditors' Report of those accounts.
2. To approve the Directors' Remuneration Report for the financial year ended 30 April 2019, which is set out in the Group's Annual Report for the financial year ended 30 April 2019.
3. To declare a final dividend for the year ended 30 April 2019 of 1.27p per Ordinary Share in the capital of the Group, to be paid on 30 September 2019 to shareholders whose names appear on the register of members at the close of business on 30 August 2019.
4. To re-elect Balbinder Johal as a Director of the Group.
5. To re-elect David Beech as a Director of the Group.
6. To re-elect Steve Dolton as a Director of the Group.
7. To re-elect Kate Lewis as a Director of the Group.
8. To re-elect Richard King as a Director of the Group.
9. To re-elect Jane Pateman as a director of the Group.
10. To reappoint RSM UK Group LLP as auditors of the Group to hold office until the conclusion of the next Annual General Meeting of the Group at which the accounts are laid before the Group.
11. To authorise the Audit Committee to determine the remuneration of the auditors of the Group.

Special Business

12. To consider and, if thought fit, pass the following resolution as an ordinary resolution, **THAT,** in substitution for all existing and unexercised authorities and powers, the Directors of the Group be generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (Act) to exercise all or any of the powers of the Group to allot shares of the Group or to grant rights to subscribe for, or to convert any security into, shares of the Group (such shares and rights being together referred to as **Relevant Securities)**:

12.1 up to an aggregate nominal value of £48,881.6573; and

12.2 comprising equity securities (as defined in section 560(1) of the Act) up to a further aggregate nominal amount of £48,881.6573 in connection with an offer by way of a rights issue:

(a) to holders of Ordinary Shares in the capital of the Group in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and

(b) to holders of other equity securities in the capital of the Group, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that these authorities, unless previously renewed, varied or revoked by the Group in general meeting, to expire at the conclusion of the next Annual General Meeting of the Group or 24 December 2020 whichever is the earlier, save that the Directors of the Group may, before the expiry of such period, make an offer or agreement which would or might require Relevant Securities to be allotted after the expiry of such period and the Directors of the Group may allot Relevant Securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

To consider and, if thought fit, pass the following resolutions as special resolutions:

13. **THAT,** subject to the passing of resolution 12 and pursuant to sections 570 and 573 of the Act, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell Ordinary Shares held by the Group as treasury shares as if section 561(1) of the Act did not apply to any such allotment or sale, provided that such authority shall be limited to:

13.1 the allotment of equity securities or sale of treasury shares in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

(a) to the holders of Ordinary Shares in the capital of the Group in proportion (as nearly as may be practicable) to their respective holdings; and

(b) to holders of other equity securities in the capital of the Group as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

13.2 the allotment of equity securities or sale of treasury shares (otherwise than pursuant to clause 13.1 of this resolution) to any person up to an aggregate nominal amount of £7.332.5419 (representing 5% of the current issued share capital of the Group).

The authority granted by this resolution will expire at the conclusion of the Group's next Annual General Meeting after the passing of this resolution or, if earlier, at the close of business on 24 December 2020, save that the Group may, before such expiry make offers or agreements which would or might require equity securities to be allotted (or treasury shares to be sold) for cash after the authority expires and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

This power is in substitution for all existing powers under sections 570 and 573 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

14. **THAT**, subject to the passing of resolution 12, the Directors be and are generally empowered in addition to any authority granted under resolution 13 to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by resolution 12 and/or to sell Ordinary Shares held by the Group as treasury shares as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

(a) limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £7.332.5419 (representing 5% of current issued share capital of the Group); and

(b) used only for the purpose of financing (or refinancing, if the authority is to be used within 6 months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

The power granted by this resolution will expire at the conclusion of the Group's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 24 December 2020, save that the Group may, before such expiry make offers or agreements which would or might require equity securities to be allotted (or treasury shares to be sold) for cash after the authority expires and the directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

15. **THAT,** for the purposes of section 701 of the Act, the Group be and is generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of £0.002 each in the capital of the Group **(Ordinary Shares)** provided that:

15.1 the maximum number of Ordinary Shares which may be purchased is 7,332,541 (representing 10% of the current issued share capital of the Group);

15.2 the minimum price (excluding expenses) which may be paid for each Ordinary Share is £0.002;

15.3 the maximum price (excluding expenses) which may be paid for each Ordinary Shares shall not be more than 5% above the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of The London Stock Exchange plc for the 5 business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

15.4 unless previously renewed, varied or revoked by the Group in general meeting, this authority shall expire at the end of the next Annual General Meeting of the Group (or, if earlier, at the close of business on 24 December 2020); and

15.5 the Group may enter into a contract or contracts to purchase Ordinary Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and, notwithstanding such expiry, make a purchase of Ordinary Shares in pursuance of such contracts as if the power conferred hereby had not expired.

16. That the period of notice required for general meetings of the Group (other than annual general meetings) shall be no less than 14 clear days' notice.

By Order Of The Board

Lisa Bridgwood
Company Secretary

Date: 8 July 2019

Registered Office:
The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

Notice of Annual General Meeting

Notes:

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Group specifies that only those shareholders on the register of members of the Group as at 6.00pm on 20 September 2019 (or, if the meeting is adjourned, not later than close of business on the date which is 2 business days before the date of the adjourned meeting) will be entitled to attend or vote at the AGM and they may only vote in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00pm on 20 September 2019 (or, if the meeting is adjourned, after close of business on the day which is 2 business days before the date of the adjourned meeting) will be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member of the Group entitled to attend and vote at the AGM is entitled to appoint one or more proxies to exercise all or any of his/her rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid. A proxy need not be a member of the Group, but must attend the AGM to represent the member. Appointment of a proxy will not prevent members from attending this meeting and voting in person.

3. A form of proxy is enclosed with this Notice. If you do not have a form of proxy and believe that you should have one, or if you require additional forms please contact Computershare on +44 (0370) 703 0065 by **18th September 2019**. Should you wish to appoint more than one proxy, please photocopy the form indicating on each copy the name of the proxy you wish to appoint, the number of Ordinary Shares in respect of which the proxy is appointed and the way in which you wish them to vote on the resolutions that are proposed. You should send all pages together to Computershare in accordance with the instructions below.

4. To be valid, the form of proxy must be lodged with Computershare not later than 48 hours before the time fixed for the meeting, along with any power of attorney or other authority under which the proxy is appointed (or a notarially certified copy of such power or authority) to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY.

5. You can lodge your vote electronically, by logging onto the Computershare website at www.investorcentre.co.uk/eproxy. An identifying Control Number, together with your unique Shareholder Reference Number (SRN) and PIN (all of which are printed on your attendance card/form of proxy) will be required. Full details of the procedure are given on the website. The proxy appointment and/or voting instructions must be received by the Group's registrars not later than 09.30 a.m. on 20 September 2019.

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear UK & Ireland) specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent Computershare Investor Services PLC (under CREST ID number 3RA50), no later than 09.30am on 20th September, or by not later than 2 business days prior to the time appointed for the holding of any adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

7. The Group may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. To change your proxy instructions, simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 4 above) also applies in relation to amended instructions, any amended proxy appointment received after the relevant cut-off time will be disregarded.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

9. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all of its powers as a member, provide that no more than one corporate representative exercises powers over the same share. A certified copy of the board resolution appointing the relevant person(s) as the representative of that corporation in connection with the meeting must be deposited at the address set out at note 4 above for Computershare prior to the commencement of the meeting.

10. As at 8 July 2019 (being the last practicable date before the publication of this notice), the Group's issued share capital consists of 73,325,419 Ordinary Shares of £0.002 each, carrying one vote each. The Group does not hold any Ordinary Shares in treasury. Therefore, the total voting rights in the Group as at 8 July 2019 are 73,325,419.

11. Copies of all Directors' service contracts with the Group and letters of appointment of Non-Executive Directors are available for inspection during normal business hours at the registered office of the Group (public holidays excluded) and will also be available for inspection at the AGM.

12. You may not use any electronic address provided either in this Notice of Annual General Meeting or in any related documents (including the form of proxy) to communicate with the Group for any purposes other than those expressly stated.

13. Biographical details of all those Directors who are offering themselves for reappointment at the meeting are set out on pages 58-59 of the enclosed Annual Report and Accounts.

14. Members who have general queries about the Annual General Meeting should contact the Group's Registrars, Computershare on 0370 703 0065. From overseas +44 (0370) 703 0065. Calls outside the United Kingdom will be charged at the applicable international rate. Computershare are open between 08.30am-17.00pm, Monday to Friday excluding public bank holidays in England and Wales). You may not use any electronic address provided either:

14.1 in this notice; or

14.2 any related documents (including the proxy form), to communicate with the Group for any purposes other than those expressly stated.

15 Notice of general meetings. The notice period required by the Act for general meetings of traded companies is 21 days unless shareholders approve a shorter notice period, which cannot, however, be less than 14 clear days. The Company is not a traded company for the purposes of the Act but is choosing to put Resolution 16 to Shareholders to comply with best practice. Annual General Meetings will continue to be held on at least 21 clear days' notice. The authority granted by Resolution 12, if passed, will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The shorter notice period afforded by Resolution 16 would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

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)

Registered Office
The Brampton
Newcastle-Under-Lyme
Staffordshire
ST5 0QW

Registered Number
11290101

Independent Auditor
RSM UK Audit LLP
Chartered Accountants
Festival Way
Stoke-on-Trent
Staffordshire
ST1 5BB

Nomad and Broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M

Financial Public Relations
MHP
6 Agar Street
London
WC2N 4HN

Bank
Allied Irish Bank (GB)
Vantage Point
Hardman Street
Spinningfields
Manchester
M3 3PL

Registrar
Computershare Investor Services
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Legal
DLA Piper UK LLP
160 Aldersgate Street
London
EC1A 4HT

Designed and produced by emperor
Visit us at emperor.works