Financial Statements

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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 2022 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted International Accounting Standards. 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 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Summary of our audit approach

Key audit matters	**Group** • Valuation and recoverability of amounts recoverable on contracts and impact on revenue recognition • Acquisition accounting, timing of obtaining control and valuation of intangibles assets acquired **Parent Company** • None identified
Materiality	**Group** • Overall materiality: £635,000 (2021: £771,000) • Performance materiality: £476,000 (2021: £578,000) **Parent Company** • Overall materiality: £423,000 (2021: £514,000) • Performance materiality: £317,000 (2021: £385,000)
Scope	Our audit procedures covered 97% of revenue, 100% of net assets and 98% of underlying profit before tax.

Key audit matters

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

Revenue recognition and contract assets	
Key audit matter description	The Group's accounting policy in respect of revenue recognition is set out in note 2.5. Note 4 sets out the critical judgements and estimates applied by the Directors in relation to the valuation of unbilled contingent fee agreements and of amounts recoverable on contract assets, which may have a material effect on the amount of revenue recognised in the period, and note 5 to the financial statements gives detail on revenue. There is a risk that revenue could be materially misstated due to recognising revenue in the wrong accounting period, or in the wrong amount. Revenue is materially impacted by changes in the contract assets balance, which is subject to management judgement about recovery rates and provisions. The Group has recognised revenue of £125.6 million in respect of fees billed and accrued in the year, which consists of a large number of relatively low value transactions. Due to the large volume of transactions in the year there is a risk that not all of the matters in the year have been appropriately billed. The Group's contract assets balance at the year end is £31.8 million (see note 23). The contract assets are valued on a line by line (case by case) basis using an estimated recovery rate at the period end. The process of valuing contract assets and, in particular, estimating recovery rates, is judgemental and therefore considered to be a key audit matter. It is also an area to which we applied significant audit time and resource.
How the matter was addressed in the audit	Our response to the key audit matter included: • assessing management's revenue recognition policy for fixed fee arrangements, unconditional fee-for-service arrangements, and variable or contingent fee arrangements for compliance with IFRS 15 – Revenue from contracts with customers • assessing the design and testing the operation of controls implemented by management over month and period end valuation of contract assets • performing analytical review of the relationships between fee earner numbers and salary costs compared to reported revenue and to prior financial years • using data analytics software to test the revenue recognised by ensuring that the revenue transaction cycle was completed through to cash receipt or inclusion in trade receivables • comparing the year end work in progress valuation and recovery rates to the prior year for each office and across departments (excluding those acquired in the year) • comparing the expected recovery rate in the prior year valuation of work in progress to the actual amounts recovered for a sample of fee earners during the year • reviewing a sample of contract assets balances at period end and discussing the nature of the case and the anticipated recovery rates with management and individual fee earners • for the same sample, checking any billing or provisions following the period end to support the reported recovery rate • period-end cut off testing to ensure that contract assets and revenue had been recognised in the correct accounting period • reviewing the monthly chargeable hours recorded during the period and in the month immediately after the period end to determine whether there were any unexplained fluctuations in recorded hours • agreeing the recoverability of the balance of unbilled revenue to post year end billing and cash receipts and, where billing has not yet occurred, challenging fee-earners about the expected recovery, confirming unbilled revenue is recorded in the correct period and at the correct amount and is supported by time costs incurred.

Independent Auditor's Report continued

to the Members of Knights Group Holdings plc

Acquisition accounting and valuation of intangibles assets acquired	
Key audit matter description	During the year the Group made three acquisitions involving aggregate consideration of £10.4 million, including deferred consideration of £3.6 million as set out in note 21. The Group also completed an acquisition on which contracts had been exchanged on 30 April 2021, and which was included in the financial statements for the year ended 30 April 2021. There are significant intangible assets arising as a result of each acquisition, including goodwill of £5.8 million and customer relationships of £2.4 million (note 20). The determination and allocation of the purchase price, the identification and valuation of the intangible assets arising, and the useful lives of these assets, particularly the customer relationships, involve the exercise of a significant degree of management judgement and is therefore considered to be a key audit matter. Additionally, the date on which control is obtained in each acquisition is a key judgement in assessing the acquisition date (see note 4). The details of acquisitions made in the year are set out in note 21. Notes 2.4 (business combinations), 2.7 (goodwill) and 2.8 (intangible assets other than goodwill) set out the accounting policies in respect of business combinations and note 20 to the financial statements summarises the intangible assets added through acquisitions in the year.
How the matter was addressed in the audit	Our response to the key audit matter included: • obtaining copies of the acquisition agreements for each acquisition and considering which party has control, the percentage acquired, the consideration offered and details of any deferred and/or contingent consideration • reviewing the details of clauses in the heads of terms and the sale and purchase agreements for each acquisition to determine the date on which control passes, and hence determining the date of acquisition i.e. the date control was obtained • agreeing the amounts of consideration to cash amounts paid and the share consideration to share certificates issued and the market price in the period immediately prior to issue • confirming that the accounting treatment applied for each transaction is in accordance with relevant accounting standards • reviewing and challenging the appropriateness of the assumptions used in the fair value calculations to value the customer relationships and agreeing these to supporting evidence, including the growth rate, customer attrition rate and discount rate applied • considering whether there are any other intangible assets which should be recognised as part of the fair value exercise • reviewing the useful life applied to customer lists and comparing this to historic client retention rates in the acquired businesses • confirming that the disclosures made in respect of each acquisition are in accordance with the relevant standard.

We did not identify any key audit matters in respect of the parent company.

Our application of materiality

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

	Group	Parent company
Overall materiality	£635,000 (2021: £771,000)	£423,000 (2021: £514,000)
Basis for determining overall materiality	3.5% of underlying profit before tax	0.5% of net assets
Rationale for benchmark applied	A key metric used by management and shareholders in assessing performance of the Group is underlying profit before tax, as disclosed in note 37. This is a change from the benchmark used in prior years of underlying EBITDA, which is no longer used by management as the main key performance indicator.	The parent company does not trade; its function is to hold investments in the Group's trading entities. As a result, the benchmark for this entity is net assets.
Performance materiality	£476,000 (2021: £578,000)	£317,000 (2021: £385,500)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £32,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £21,100 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Group consists of four components, all of which are based in the UK.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Net assets	Underlying EBITDA
Full scope audit	3	97%	100%	98%
Analytical procedures at Group level	1	3%	0%	2%
Total	4	100%	100%	100%

No component auditors were involved in our work.

Other information

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

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

We have nothing to report in this regard.

Independent Auditor’s Report continued
to the Members of Knights Group Holdings plc

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 67, 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.

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

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

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

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

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

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

The most significant laws and regulations were determined as follows:

Legislation/Regulation	Additional audit procedures performed by the audit engagement team included:
IFRS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation. Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from internal tax advisors. Inspection of correspondence with local tax authorities. Input from a tax specialist was obtained to review the Group's draft tax computations.
Solicitors' Regulatory Authority regulations	Discussion with the Group's in-house compliance team. Review of returns submitted to and correspondence with the Solicitors' Regulatory Authority, including in relation to any breaches, potential litigation or claims. The Group undergoes a separate SRA audit.

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

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

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

Use of our report

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

Geoff Wightwick (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants

Festival Way
Stoke on Trent
Staffordshire
ST1 5BB

11 July 2022

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2022

	Note	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Revenue	5	**125,604**	103,201
Other operating income	7	**1,270**	1,310
Staff costs	8	**(76,863)**	(62,707)
Depreciation and amortisation charges	11	**(10,778)**	(7,730)
Impairment of trade receivables and contract assets		**(498)**	(223)
Other operating charges	12	**(22,077)**	(16,173)
Operating profit before non-underlying charges		**16,658**	17,678
Non-underlying operating costs	13	**(13,260)**	(10,288)
Operating profit		**3,398**	7,390
Finance costs	14	**(2,364)**	(1,881)
Finance income	15	**22**	–
Profit before tax		**1,056**	5,509
Taxation	17	**(1,840)**	(2,107)
Impact of change in tax rate on deferred tax charge	17	**(1,747)**	–
(Loss)/profit and total comprehensive income for the year attributable to equity owners of the parent		**(2,531)**	3,402

Earnings per share		**Pence**	**Pence**
Basic earnings per share	18	**(3.02)**	4.14
Diluted earnings per share	18	**(3.02)**	4.09

Consolidated Statement of Financial Position

As at 30 April 2022

	Note	30 April 2022 £'000	30 April 2021 £'000
Assets			
Non-current assets			
Intangible assets and goodwill	20	**82,172**	79,523
Property, plant and equipment	22	**10,240**	9,538
Right-of-use assets	22	**40,663**	40,406
Finance lease receivables	26	**1,091**	–
		134,166	129,467
Current assets			
Contract assets	23	**31,777**	28,530
Trade and other receivables	24	**32,309**	31,521
Finance lease receivables	26	**76**	–
Corporation tax asset		**1,815**	–
Cash and cash equivalents		**4,097**	4,783
Assets held for resale	27	**1,195**	–
		71,269	64,834
Total assets		**205,435**	194,301
Equity and liabilities			
Equity			
Share capital	25	**169**	165
Share premium		**74,264**	68,369
Merger reserve		**(3,536)**	(3,536)
Retained earnings		**14,762**	17,691
Equity attributable to owners of the parent		**85,659**	82,689
Non-current liabilities			
Lease liabilities	28	**41,183**	39,020
Borrowings	29	**32,798**	23,650
Deferred consideration	30	**2,421**	–
Deferred tax	31	**8,332**	5,655
Provisions	33	**4,331**	2,998
		89,065	71,323
Current liabilities			
Lease liabilities	28	**5,345**	3,620
Borrowings	29	**355**	414
Trade and other payables	32	**21,362**	32,303
Deferred consideration	30	**1,210**	1,095
Contract liabilities	23	**237**	216
Corporation tax liability		**–**	765
Provisions	33	**1,772**	1,876
Liabilities held for resale	27	**430**	–
		30,711	40,289
Total liabilities		**119,776**	111,612
Total equity and liabilities		**205,435**	194,301

The financial statements were approved by the board and authorised for issue on 11 July 2022 and are signed on its behalf by:

Kate Lewis
Director

Consolidated Statement of Changes in Equity

For the year ended 30 April 2022

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
As at 1 May 2020		164	66,252	(3,536)	13,070	75,950
Profit for the period and total comprehensive income		–	–	–	3,402	3,402
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	9	–	–	–	1,219	1,219
Issue of shares	25	1	2,117	–	–	2,118
Balance at 30 April 2021		**165**	**68,369**	**(3,536)**	**17,691**	**82,689**
Loss for the period and total comprehensive income		**–**	**–**	**–**	**(2,531)**	**(2,531)**
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	9	**–**	**–**	**–**	**835**	**835**
Issue of shares	25	**4**	**5,895**	**–**	**–**	**5,899**
Dividends	19	**–**	**–**	**–**	**(1,233)**	**(1,233)**
Balance at 30 April 2022		**169**	**74,264**	**(3,536)**	**14,762**	**85,659**

Consolidated Statement of Cash Flows

For the year ended 30 April 2022

	Note	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Operating activities			
Cash generated from operations	35	**25,060**	20,378
Non-underlying operating costs paid	13	**(3,691)**	(4,268)
Interest received		**274**	461
Tax paid		**(4,095)**	(2,125)
Contingent acquisition payments		**(5,383)**	(5,597)
Net cash from operating activities		**12,165**	8,849
Investing activities			
Acquisition of subsidiaries (net of cash acquired)	21	**(6,801)**	(1,195)
Purchase of intangible fixed assets	20	**(62)**	(196)
Purchase of property, plant and equipment	22	**(2,526)**	(4,356)
Proceeds from sale of property, plant and equipment		**–**	6
Proceeds from lease receivables		**30**	–
Landlord capital contribution		**146**	2,265
Associated lease costs		**(23)**	(289)
Payment of deferred and contingent consideration		**(1,095)**	(3,171)
Net cash used in investing activities		**(10,331)**	(6,936)
Financing activities			
Proceeds of borrowings		**47,350**	19,000
Repayment of borrowings		**(38,600)**	(24,000)
Proceeds from exercise of share options		**798**	–
Repayment of debt acquired with subsidiaries	21	**(2,903)**	(2,387)
Repayment of lease liabilities		**(3,890)**	(2,564)
Interest and other finance costs paid		**(2,060)**	(1,772)
Dividends paid		**(1,233)**	–
Net cash used in financing activities		**(538)**	(11,723)
Net increase/(decrease) in cash and cash equivalents		**1,296**	(9,810)
Cash and cash equivalents at the beginning of the period (net of overdraft £nil (2021:£1,852,000))		**2,931**	12,741
Cash – continuing operations		**4,097**	2,931
Cash – assets held for resale (note 27)		**130**	–
Cash and cash equivalents at end of period (net of overdraft £nil (2021:£1,852,000))		**4,227**	2,931

Notes to the Consolidated Financial Statements

For the year ended 30 April 2022

1. General Information

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

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

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

The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

Applying these standards 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

2.2 Going concern

The accounts are prepared on a going concern basis as, at the time of approving the financial statements, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Group was cash generative for FY22 and is forecast to continue to be so. The Group has banking facilities of £60,000,000 available until October 2024. The Group's forecasts show sufficient cash generation and headroom in banking facilities and covenants by comparison to anticipated future requirements to support the Directors' conclusion that the assumption of the going concern basis of accounting in preparing the financial statements is appropriate.

The Group continues to trade profitably before non underlying charges and cash generation at an operating cashflow level has remained strong and in line with expectation. In order to satisfy the validity of the going concern assumption, a number of different trading scenarios have been modelled and reviewed. Some of these scenarios forecast a significantly more negative trading performance than is expected. In all of these scenarios the Group remained profitable and with significant headroom in its cash resources for the 12 months from the date of approval of the accounts.

2.3 Basis of consolidation

The consolidated financial statements incorporate the results of Knights Group Holdings plc and all of its subsidiaries. Subsidiaries results are consolidated in the financial statements from the date of exchange of the sale and purchase agreement, at which time control is obtained until the date that control ceases.

Subsidiaries

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

Transactions eliminated on consolidation

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

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

Audit exemption of subsidiaries

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

Name	Registered number
BrookStreet Des Roches LLP	OC317863
Dakeyne Emms Gilmore Liberson Limited	06850969
ERT Law Limited	09182964
Shulmans LLP	OC348166
ASB Law LLP	OC351354
ASB Aspire Limited Liability Partnership	OC327667
OTB Eveling LLP	OC371214
Mundays LLP	OC313856
K & S Trust Corporation Limited	02885753
Keebles LLP	OC351421
Archers Law Limited Liability Partnership	OC306705
Langleys Solicitors LLP	OC361149
Langleys Law Firm Limited	07500419
Home Property Lawyers Limited	09356408

The outstanding liabilities at 30 April 2022 of the above named subsidiaries have been guaranteed by the Company pursuant to s479A to s479C of the Act. In the opinion of the directors, the possibility of the guarantee being called upon is remote since the trade, assets and majority of liabilities of these subsidiaries were transferred to Knights Professional Services Limited before 30 April 2022.

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. This discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

2.5 Revenue

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

2. Accounting policies continued

2.5 Revenue continued

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

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

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the Consolidated 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 Group transfers its services to a client and when the client pays for that service will generally be one year or less.

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

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

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

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

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

2.6 Taxation

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

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

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

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

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

2.7 Intangible assets – Goodwill

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

2.8 Intangible assets – Other than goodwill

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

Intangible assets arising on a business combination, such as customer relationships, are initially 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 Consolidated Statement of Comprehensive Income on a straight-line basis over their estimated useful lives, as follows:

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

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

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

Restrictive covenants are amortised over the remaining length of covenant.

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

2.9 Property, plant and equipment

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

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

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

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

2.10 Impairment of non-current assets

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

Shortfalls between the carrying value of non-current assets and their recoverable amounts, being the higher of fair value less costs to sell and value in use, are recognised as impairment losses. All impairment losses are recognised in the Consolidated 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 Consolidated Statement of Comprehensive Income. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

2.11 Professional indemnity 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. Professional indemnity insurance cover is maintained in respect of professional negligence claims. Premiums are expensed as they fall due with prepayments being recognised accordingly.

Provision is made in the financial statements for all claims where costs are likely to be incurred. The provision represents management's best estimate of the cost of defending and concluding claims and any excesses that may become payable. 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

Group as lessee

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

2. Accounting policies continued

2.12 Leases continued

Group as lessee continued

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

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

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

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

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

Group as lessor

The Group enters into lease agreements as a lessor with respect to one of its properties.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

2.13 Retirement benefits

2.13a Defined contribution scheme

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

2.13b Defined benefit pension scheme

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

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

Defined benefit assets are not recognised in the Consolidated Statement of Financial Position, on the basis that they are not deemed to be material.

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

2.14 Share Based Payments

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

2.15 Financial instruments

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

Financial assets

Contract assets and trade and other receivables

Contract assets and trade and other 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 and other 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, adjusted for forward looking circumstances, 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 Consolidated 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 Finance costs.

Derecognition of financial assets and liabilities

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

3. Accounting developments

New and amended IFRSs that are effective for the future

At the date of these financial statements, there were new standards and amendments to IFRSs which were in issue but which were not yet effective and which have not been applied. The principal ones were:

Revised IFRS	Effective date
Amendments to IFRS3 Business Combinations; IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	1 January 2022
IFRS 17: Insurance contracts	1 January 2023
Amendments to IAS 1, Practice statement 2 and IAS 8	1 January 2023
Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current and Non-current and Classification of Liabilities as Current or Non-current	1 January 2024

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

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 professionals with detailed understanding of the individual matters. The carrying value of contingent fee arrangements at 30 April 2022 was £7,804,000 (2021: £5,781,000).

IFRS 16

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

Business combinations

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

Alternative performance measurements (APMs)

The Group presents various APMs to assist the user in understanding the underlying performance of the Group. The selection of these APM's requires the exercise of judgement as to the key performance indicators used.

Key sources of estimation uncertainty

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

IFRS 16

The Group makes estimates of the cost of restoring leased assets to their original condition when required to do so under the terms and conditions of the lease. Those estimates are based on the current condition of the leased assets and past experience of restoration costs. As at 30 April 2022 the Group had total provisions of £4,462,000 (2021: £3,999,000) (see note 33).

Amounts recoverable on contract assets– recoverable amounts

The valuation of amounts recoverable on contract assets ('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 professionals. The estimation process takes into account the progress of the case at the reporting date, the estimated eventual fee payable by the client and the amount of time which will be incurred in bringing the matter to a successful conclusion. The amount recognised in AROC at the year end was £31,777,000 (2021: £28,530,000), a 3% change in the estimated recovery of all matters would impact the profit for the period by approximately £1,245,000 (2021: £982,000).

Accounting for business combinations and valuation of acquired 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, length of key customer relationships and the appropriate weighted average cost of capital ('WACC') and internal rate of return ('IRR'). Profitability is also assumed at an EBITDA margin level, but is considered relatively predictable.

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

The total carrying value of acquired intangibles (excluding brands) is £25,122,000 (2021: £26,544,000). In order to assess the impact of the key assumptions on the values disclosed in the Financial Statements the Directors have applied the following sensitivities to the acquisitions in the current year:

Key assumption	Rate applied in the financial statements	Sensitivity tested	Annual profit impact £'000	Value of intangible assets £'000
Long-term growth rate	2%	0%	5	(6)
WACC and IRR	10.0% – 10.3%[1]	Increase by 5%	61	(59)
Length of customer relationships	3.5 – 7 years	Increase of 5 years	(175)	345

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

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

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

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

Intangible Assets – carrying amount of goodwill – impairment review

The Directors undertake an annual impairment review of goodwill to assess whether the carrying value of £51.8 million is still supported by using a discounted cash flow model to derive the value in use of the cash generating unit ('CGU'). Cash flow forecasts are derived from the most recent financial budgets approved by management for the next three years and extrapolated using a terminal value calculation.

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

Revenue growth over the three years of the forecast period reflects, for FY23, the current run rate of revenue from the Group's existing business and a full year of revenue from acquisitions made during the year ended 30 April 2022, with an element of organic growth in FY24 and FY25. The long-term growth rate of 2% (2021: 2%) is based on UK economic growth forecasts for the legal services market.

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

5. Revenue

All revenue is derived from contracts with customers and is recognised over time. As explained further 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 2022 is not required to be disclosed because it is comprised of contracts that are expected to have a duration of one year or less.

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

6. Segmental reporting

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

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

7. Other operating income

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Other income	**996**	912
Bank interest	**274**	398
	1,270	1,310

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

8. Staff costs

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

	Year ended 30 April 2022 Number	Year ended 30 April 2021 Number
Fee earners	**1,080**	933
Other employees	**268**	230
	1,348	1,163

Their aggregate remuneration comprised:

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Wages and salaries	**67,923**	54,927
Social security costs	**7,123**	5,603
Other pension costs	**2,324**	1,848
Share based payment charge	**835**	1,219
Other employment costs	**1,159**	1,169
Aggregate remuneration of employees	**79,364**	64,766
Redundancy costs and share based payment charges analysed as non-underlying costs (note 13)	**(2,501)**	(2,059)
Underlying staff costs in Statement of Comprehensive Income	**76,863**	62,707

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 2022 £'000	Year ended 30 April 2021 £'000
Salaries, fees, bonuses and benefits in kind	**892**	729
Gains on exercise of options	**913**	-
Money purchase pension contributions	**14**	10
	1,819	739

The number of directors to whom benefits are accruing under money purchase pension schemes is 2 (2021: 2).

The remuneration of the highest paid director was:

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Salaries, fees, bonuses, benefits in kind and share based payments gains on exercise of options	**1,140**	212

9. Share-based payments

The Group issues equity-settled share-based payments to its employees. The Group recognised total expenses of £835,000 (2021: £1,219,000) relating to equity-settled share-based payment transactions in the year. £414,000 (2021: £619,000) is recognised within staff costs and £421,000 (2021: £600,000) in non-underlying costs.

Any charges relating to schemes introduced as one-off schemes as part of the listing on AIM in 2018 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 and on acquisitions. Additionally, in the current year there has been £260,000 of charges in respect of employees leaving a share scheme but remaining with the business. One off accelerated charges required under IFRS 2 due to employees leaving the scheme, as a result of COVID or the reduction in share price following the trading announcement in March 2022, are also excluded from underlying charges as once an individual has left the scheme this charge is an accounting requirement only and is not an alternative form of remuneration for the employee. 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. The performance condition is in relation to meeting target underlying EPS values.

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

	Restricted stock awards		Performance share awards	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at 1 May 2020	575,398	0.2	206,214	0.2
Granted during the period	85,322	0.2	77,410	0.2
Forfeited during the period	(15,278)	0.2	(39,814)	–
Exercised during the period	(59,119)	0.2	–	–
Outstanding at 30 April 2021	586,323	0.2	243,810	0.2
Exercisable at 30 April 2021	69,934	0.2	–	–
Granted during the period	265,300	0.2	100,228	0.2
Dividend equivalents awarded	2,137	0.2	–	–
Forfeited during the period	(37,395)	0.2	–	–
Exercised during the period	(354,954)	0.2	–	–
Outstanding at 30 April 2022	**461,411**	**0.2**	**344,038**	**0.2**
Exercisable at 30 April 2022	**166,652**	**0.2**	**–**	**–**

The options outstanding at 30 April 2022 had a weighted average exercise price of 0.2p and a weighted average remaining contractual life of 1.52 years. The average share price for options exercised during the year was 382.4p.

During the year 265,300 options were granted as restricted stock awards. In addition, 100,228 of performance share awards were granted. The maximum term of any award is three years.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

9. Share-based payments continued

Omnibus Plan continued

The aggregate of the estimated fair values of the options granted on these dates is £1,574,000. The model used is based on intrinsic values and the inputs are as follows:

Date Granted	Number of Shares	Fair Value	Share Price	Exercise Price	Expected Life	Type of award
5 July 2021	50,000	205,900	412p	0.2p	2.8 years	Restricted stock
13 July 2021	145,000	644,960	445p	0.2p	3.0 years	Restricted stock
1 September 2021	18,292	74,778	409p	0.2p	1.0 years	Restricted stock
21 September 2021	4,722	20,295	430p	0.2p	1.0 years	Restricted stock
15 October 2021	10,000	42,380	424p	0.2p	2.8 years	Restricted stock
1 November 2021	12,428	48,444	390p	0.2p	1.0 years	Restricted stock
1 November 2021	12,429	48,448	390p	0.2p	2.0 years	Restricted stock
1 November 2021	12,429	48,448	390p	0.2p	3.0 years	Restricted stock
19 July 2021	100,228	440,803	440p	0.2p	3.0 years	Performance share

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 two free matching shares for each partnership share purchased. The matching shares are forfeited if the employee leaves within three years of the grant date.

	Partnership Shares Number	Matching Shares Number
Outstanding at 1 May 2020	181,524	363,049
Withdrawn during the period	(16,485)	–
Forfeited during the period	–	(32,970)
Outstanding at 30 April 2021	165,039	330,079
Unrestricted at 30 April 2021	–	–
Withdrawn during the period	(40,694)	–
Forfeited during the period	–	(81,388)
Outstanding at 30 April 2022	**124,345**	**248,691**
Unrestricted at 30 April 2022	**124,345**	**248,691**

Sharesave Scheme ('SAYE')

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

The first scheme was launched in November 2018 and further new SAYE schemes have been launched in February 2020 and March 2022.

	SAYE options	
	Number	Weighted average exercise price Pence
Outstanding at 1 May 2020	1,360,189	251
Forfeited during the period	(104,557)	350
Exercised during the period	(16,678)	164
Outstanding at 30 April 2021	1,238,954	244
Exercisable at 30 April 2021	–	–
Granted during the period	1,430,251	296
Forfeited during the period	(311,248)	342
Exercised during the period	(491,530)	161
Outstanding at 30 April 2022	**1,866,427**	**289**
Exercisable at 30 April 2022	**209,829**	**162**

The options outstanding at 30 April 2022 had a weighted average exercise price of 289p and a weighted average remaining contractual life of 2.41 years. The average share price for options exercised during the year was 370.4p.

November 2018 scheme

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

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

The November 2018 scheme matured on 1 February 2022, the number of shares exercised in respect of this scheme as at 30 April 2022 is 489,037. There are 209,829 shares which remain exercisable.

February 2020 scheme

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

9. Share-based payments continued

March 2022 Scheme

The aggregate of the estimated fair values of the options granted in March 2022 is £110,000. The inputs into the Black-Scholes model are as follows:

Exercise price	296p
Weighted average share price	148p
Expected volatility	53.7%
Expected life	3.1 years
Risk-free rate	5.9%
Expected dividend yield	3.0%

Volatility is based on the daily change in share price from 29 June 2018 to the date of measurement

10. Retirement benefit schemes

The Group operates a defined contribution pension scheme for employees. The total cost charged to income of £2,324,000 (2021: £1,848,000) represents contributions payable to the scheme by the Group. As at 30 April 2022, contributions of £892,000 (2021: £439,000) due in respect of the reporting period had not been paid over to the schemes.

The defined benefit impact is discussed in note 39. There were no charges against income in the year ended 30 April 2022.

11. Depreciation and amortisation charges

	Year ended 30 April 2022 £'000	**Year ended 30 April 2021 £'000**
Depreciation	**2,027**	1,309
Depreciation on right-of-use assets	**4,799**	3,684
Amortisation	**3,936**	2,704
Loss on disposal of property, plant and equipment	**16**	33
	10,778	7,730

Depreciation of £nil (2021: £43,000) is included in non-underlying operating costs.

12. Other operating charges

	Year ended 30 April 2022 £'000	**Year ended 30 April 2021 £'000**
Establishment costs	**5,633**	4,140
Short term and low value lease costs	**187**	291
Other overhead expenses	**16,257**	11,742
	22,077	16,173

13. Non-underlying operating costs

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Redundancy and reorganisation costs	**2,080**	1,459
Transaction costs	**988**	1,245
Onerous short life asset leases	**472**	132
Impairment of right-of-use assets	**2,065**	635
Loss on disposal of intangible assets and property, plant and equipment	**967**	284
Share based payment charges	**421**	600
Contingent consideration treated as remuneration	**6,267**	5,933
	13,260	10,288

Non-underlying costs cash movement

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Non-underlying operating costs	**13,260**	10,288
Adjustments for:		
Contingent consideration shown separately	**(6,267)**	(5,933)
Non cash movements:		
Share based payment charge	**(421)**	(600)
Impairment of right of use assets	**(2,065)**	–
Loss on disposal of property, plant and equipment	**(967)**	(284)
Onerous leases	**(97)**	(302)
Accrual	**248**	1,099
	3,691	4,268

Non-underlying costs relate to redundancy costs to streamline the support function of the Group following acquisitions, transaction costs in respect of acquisitions, onerous lease costs in respect of acquisitions, disposals of acquired assets and share based payment charges relating to one off share schemes offered to employees as part of the IPO and on acquisitions. Any one off accelerated charges required under IFRS 2 due to employees leaving the scheme, as a result of COVID or the reduction in the share price following the trading announcement in March 2022, are also excluded from underlying charges as once an individual has left the scheme this charge is an accounting requirement only and is not an alternative form of remuneration for the employee. FY21 also included some costs relating to reorganisation actions taken in response to the impact of COVID-19.

Contingent consideration is included in non-underlying costs as it represents payments which are contingent on the continued employment of those individuals with the Group, agreed under the terms of the sale and purchase agreements with vendors of certain businesses acquired. 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 2022 £'000	Year ended 30 April 2021 £'000
Interest on borrowings	**952**	704
Interest on leases	**1,412**	1,177
	2,364	1,881

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

15. Finance income

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Lease interest receivable	**22**	–

16. Auditor's remuneration

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Fees payable to the parent company's auditor and their associates for the audit of the parent company's annual accounts	**36**	29
Fees payable to the auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**126**	113
Total audit fees	**162**	142
– Audit-related assurance services	**19**	16
Total non-audit fees	**19**	16

17. Taxation

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Corporation tax:		
Current year	**1,574**	2,852
Adjustments in respect of prior years	**(96)**	(247)
	1,478	2,605
Deferred tax:		
Origination and reversal of temporary differences	**362**	(498)
Effect of change in tax rates	**1,747**	–
	2,109	(498)
Tax expense for the year	**3,587**	2,107

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Profit before tax	**1,056**	5,509
Tax at the UK corporation tax rate of 19% (2021: 19%)	**201**	1,047
Expenses that are not deductible in determining taxable profit	**2,296**	1,748
Accelerated capital allowances	**(561)**	(441)
Effect of change in tax rates	**1,747**	–
Adjustment in respect of prior years	**(96)**	(247)
Tax expense for the year	**3,587**	2,107
Consisting of:		
Underlying tax charge	**1,840**	2,107
One off deferred tax charge	**1,747**	–

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

	Year ended 30 April 2022			Year ended 30 April 2021		
	Total £'000	Underlying £'000	Non-Underlying £'000	Total £'000	Underlying £'000	Non-Underlying £'000
Profit before tax	**1,056**	**18,131**	**(17,075)**	5,509	18,419	(12,910)
Tax expense	**1,840**	**3,709**	**(1,869)**	2,107	3,379	(1,272)
Effective rate of tax	**174%**	**20%**	**11%**	38%	18%	10%
Change in tax rate	**1,747**	**136**	**1,611**	–	–	–
Effective rate of tax (post change in tax rate)	**340%**	**21%**	**2%**	38%	18%	10%

On 24 May 2021, the increase in corporation tax from 19% to 25% from 1 April 2023 was substantively enacted for tax accounting purposes. At the reporting date, the effect of the new rate on the Group's tax charge has been applied to the deferred tax assets and liabilities where the differences will not reverse until after 1 April 2023. The impact of changing the tax rate from 19% to 25% on the associated assets and liabilities is outlined in the below table:

	Year ended 30 April 2022 £'000
Tax Charge at 19%	**(1,840)**
Tax Charge at 25%	**(3,587)**
Impact of change in tax rate	**(1,747)**

The impact of the change in tax rate has been classified as a non underlying cost.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

18. 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 2022 Number	Year ended 30 April 2021 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,717,952**	82,189,113
Effect of dilutive potential ordinary shares:		
Share options	**409,640**	1,021,132
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**84,127,592**	83,210,245

	£'000	£'000
(Loss)/profit after tax	**(2,531)**	3,402

Earnings per share	Pence	Pence
Basic earnings per share	**(3.02)**	4.14
Diluted earnings per share	**(3.02)**	4.09

As the Group has incurred a loss after tax for the year, the options are non-dilutive and basic and diluted earnings per share are the same.

Underlying earnings per share is calculated as an alternative performance measure in note 37.

19. Dividends

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 30 April 2022 of 1.46p per share (2021: 0p per share)	**1,233**	–
	1,233	–

For the year ended 30 April 2022 the Board have proposed a final dividend of 2.04p per share (2021: 0p per share). 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 2 September 2022. The payment of this dividend will not have any tax consequences for the Group.

20. Intangible assets and goodwill

	Goodwill £'000	Brand £'000	Customer relationships and restrictive covenants £'000	Purchased computer software £'000	Total £'000
Cost					
As at 1 May 2020	39,678	5,401	26,475	372	71,926
Acquisitions of subsidiaries	7,435	–	3,702	–	11,137
Measurement period adjustments in respect of 2020 acquisitions	544	–	118	9	671
Additions	–	–	1,097	196	1,293
As at 30 April 2021	47,657	5,401	31,392	577	85,027
Acquisitions of subsidiaries	5,771	–	2,386	527	8,684
Adjustments	(1,666)	–	(47)	–	(1,713)
Additions	–	–	–	62	62
Disposals	–	–	–	(449)	(449)
Reclassification of assets held for sale	–	–	–	(114)	(114)
As at 30 April 2022	51,762	5,401	33,731	603	91,497
Amortisation and impairment					
As at 1 May 2020	–	270	2,280	241	2,791
Adjustments	–	–	–	9	9
Amortisation charge	–	54	2,568	82	2,704
As at 30 April 2021	–	324	4,848	332	5,504
Amortisation charge	–	54	3,761	121	3,936
Eliminated on disposal	–	–	–	(112)	(112)
Reclassification of assets held for sale	–	–	–	(3)	(3)
As at 30 April 2022	–	378	8,609	338	9,325
Carrying amount					
At 30 April 2022	**51,762**	**5,023**	**25,122**	**265**	**82,172**
At 30 April 2021	47,657	5,077	26,544	245	79,523
At 30 April 2020	39,678	5,131	24,195	131	69,135

As noted in the prior year accounts, the initial accounting for the business combination which occurred at the end of the prior year was not complete. During the current year further information has come to light about estimated provisions and debt items which existed at the acquisition date.

On settling debt items on completion, it became apparent that we had accounted for some items as both an acquired liability and consideration payable to the vendors. In addition, an estimated provision was subsequently identified as being overstated once the actual costs were incurred. Both items resulted in goodwill being overstated by £1.6m and the error has now been corrected. The error is not considered to be qualitatively material, as it has no impact on reported profits or cash flows and is c 2% of intangible assets. It is not, therefore, considered to be a prior period adjustment.

The carrying amount of goodwill of £51,762,000 (2021: £47,657,000) has been allocated to the single cash generating unit (CGU) present in the business, which is the provision of legal and professional services.

The recoverable amount of the Group's goodwill has been determined by a value in use calculation using a discounted cash flow model. The Group has prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next three years after which cash flows are extrapolated using a terminal value calculation based on an estimated growth rate of 2% (2021: 2%). This rate does not exceed the expected average long-term growth rate for the UK legal services market.

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

The rate used to discount the forecast cash flows is based on a pre tax estimated weighted average cost of capital of 12.4% (2021: 15.1%).

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

20. Intangible assets and goodwill continued

Revenue growth over the three years of the forecast period reflects, for FY23, the current run rate of revenue from the Group's existing business and a full year of revenue from acquisitions made during the year ended 30 April 2022, and an element of organic growth in FY24 and FY25 through continued recruitment and increases in chargeable hours and recovered rates. The long-term growth rate is based on UK economic growth forecasts for the legal services market.

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

21. Acquisitions

Acquisitions summary

During the year the Group has completed three acquisitions (Langleys Solicitors LLP and Home Property Lawyers Limited being in the same acquired group) and also completed the acquisition of Keebles LLP (which was accounted for in the year ended 30 April 2021). The table below summarises the consideration paid and the net cash flow arising on all acquisitions in the period:

	Total £'000
Total identifiable assets less liabilities acquired	4,652
Goodwill	5,771
Total consideration	10,423
Satisfied by:	
Cash	5,192
Equity instruments (395,060 ordinary shares of Knights Group Holdings plc)	1,600
Deferred consideration arrangement	3,631
Total consideration transferred	10,423
Net cash outflows arising on acquisition:	
Cash consideration net of cash acquired	4,071
Net investing cash outflow arising on acquisition	4,071
Repayment of debt acquired	**2,454**
Net financing cash outflow arising on acquisition	**2,454**

Details for the individual acquisitions are included on the following pages.

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

The Group exchanged contracts to acquire Keebles on 30 April 2021, by purchasing the controlling membership interests of the entity. Economic benefit was obtained from 30 April 2021. This acquisition completed on 11 June 2021. As a result the cashflow timings for the payment of initial consideration and repayment of debt in relation to the Keebles acquisition occurred in the current year.

The table below provides a reconciliation to the cashflow statement for cashflows relating to acquisitions.

£'000	**Acquisitions in the year ended 30 April 2022**	**Keebles cashflows on completion**	**Total acquisitions cashflows in the year ended 30 April 2022**
Net cash outflows arising on acquisition:			
Cash consideration net of cash acquired	4,071	2,730	6,801
Net investing cash outflow arising on acquisition	4,071	2,730	6,801
Repayment of debt acquired on acquisition	2,454	-	2,454
Repayment of debt acquired post acquisition	35	414	449
Net financing cash outflow arising on acquisition	2,489	414	2,903

Archers Law Limited Liability Partnership ('Archers')

On 1 November 2021, the Group exchanged contracts to acquire Archers by purchasing the controlling membership interests of the entity. This acquisition completed on 29 November 2021. Archers is a law firm which will strengthen Knights' presence in the North East region.

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

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	–	671	671
Property, plant and equipment	108	–	108
Right-of-use assets	–	1,065	1,065
Contract assets	588	–	588
Trade and other receivables (net of £228,000 loss allowance provision)	377	(3)	374
Cash and cash equivalents	912	–	912
Liabilities			
Trade and other payables	(420)	(20)	(440)
Lease liabilities	–	(1,065)	(1,065)
Borrowings	(247)	(2)	(249)
Provisions	–	(250)	(250)
Deferred tax	–	(127)	(127)
Total identifiable assets and liabilities	**1,318**	**269**	**1,587**
Goodwill			2,349
Total consideration			**3,936**

Satisfied by:	
Cash	2,336
Equity instruments (395,060 Ordinary Shares of Knights Group Holdings plc)	1,600
Total consideration transferred	**3,936**

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	1,424
Repayment of debt	218
Net cash outflow arising on acquisition	**1,642**

The goodwill of £2,349,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the ordinary shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 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 Consolidated Statement of Comprehensive Income on a straight-line basis over the three year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £1,500,000 and is payable in equal instalments on the first, second and third anniversary of completion.

Archers contributed £2,180,000 of revenue to the Group's Consolidated Statement of Comprehensive Income for the period from 1 November 2021 to 30 April 2022. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 29 November 2021.

If the acquisition occurred at the beginning of the year Archers would have contributed £4,272,000 of revenue to the Group. Profit is not separately identifiable due to the full integration on hive up.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

21. Acquisitions continued

Langleys Solicitors LLP ('Langleys')

On 31 January 2022, the Group exchanged contracts to acquire Langleys by purchasing the controlling membership interests of the entity. This acquisition completed on 25 March 2022. Langleys is a law firm which will strengthen Knights' presence in York and provide access into the Lincoln market.

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

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	1,104	847	1,951
Property, plant and equipment	741	–	741
Right-of-use assets	–	4,159	4,159
Contract assets	2,651	–	2,651
Trade and other receivables (net of £199,000 loss allowance provision)	1,818	–	1,818
Cash and cash equivalents	37	–	37
Liabilities			
Trade and other payables	(2,324)	432	(1,892)
Lease liabilities	–	(3,630)	(3,630)
Borrowings	(2,415)	(575)	(2,990)
Provisions	–	(409)	(409)
Deferred tax	–	(293)	(293)
Total identifiable assets and liabilities	**1,612**	**531**	**2,143**
Goodwill			3,344
Total consideration			**5,487**

Satisfied by:	
Cash	1,856
Deferred consideration arrangement	3,631
Total consideration transferred	**5,487**

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	1,819
Repayment of debt	2,236
Net cash outflow arising on acquisition	**4,055**

The goodwill of £3,344,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

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 Consolidated Statement of Comprehensive Income on a straight-line basis over the three year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £2,619,000 and is payable in equal instalments on the first, second and third anniversary of completion.

There are also deferred consideration payments totalling £3,631,000 outstanding. This is payable in instalments on the first, second and third anniversaries of completion.

Langleys contributed £2,546,000 of revenue to the Group's Consolidated Statement of Comprehensive Income for the period from 1 February 2022 to 30 April 2022. 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 25 March 2022.

If the acquisition occurred at the beginning of the year Langleys would have contributed £9,444,000 of revenue to the Group. Profit is not separately identifiable due to the full integration on hive up.

Home Property Lawyers Limited ('HPL')

On 31 January 2022, the Group exchanged contracts to acquire HPL, through the agreement to purchase the shares of the entity. This acquisition completed on 25 March 2022. HPL was purchased as part of the Langleys acquisition, this entity provides volume conveyancing services.

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	114	177	291
Contract assets	492	–	492
Trade and other receivables (net of £12,000 loss allowance provision)	446	(94)	352
Cash and cash equivalents	172	–	172
Liabilities			
Trade and other payables	(363)	68	(295)
Provisions	–	(19)	(19)
Corporation tax	(100)	63	(37)
Deferred tax	–	(34)	(34)
Total identifiable assets and liabilities	**761**	**161**	**922**
Goodwill			78
Total consideration			**1,000**
Satisfied by:			
Cash			1,000
Total consideration transferred			**1,000**
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			828
Repayment of debt			–
Net cash outflow arising on acquisition			**828**

The goodwill of £78,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

HPL contributed £1,111,000 of revenue to the Group's Consolidated Statement of Comprehensive Income for the period from 1 February 2022 to 30 April 2022. HPL contributed £57,000 profit to the Group in the period 31 January 2022 to 30 April 2022.

If the acquisition occurred at the beginning of the year HPL would have contributed £4,489,000 of revenue to the Group. Profit is not separately identifiable due to a lack of management information available.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

22. Property, plant and equipment

	Expenditure on short leasehold property £'000	Office equipment £'000	Furniture and fittings £'000	Right-of-use assets £'000	Total £'000
Cost					
As at 1 May 2020	3,501	3,430	995	25,744	33,670
Acquisitions of subsidiaries	566	493	183	4,615	5,857
Additions	3,350	1,005	1	16,385	20,741
Disposals	(160)	(20)	(149)	(154)	(483)
Impairment	–	–	–	(739)	(739)
Alignment	618	(452)	11	–	177
As at 30 April 2021	7,875	4,456	1,041	45,851	59,223
Acquisitions of subsidiaries	**543**	**224**	**82**	**5,224**	**6,073**
Additions	**1,292**	**1,176**	**58**	**3,144**	**5,670**
Disposals	**(1,358)**	**(216)**	**(113)**	**(1,482)**	**(3,169)**
Alignment	**5**	**53**	**4**	**–**	**62**
As at 30 April 2022	**8,357**	**5,693**	**1,072**	**52,737**	**67,859**
Depreciation and impairment					
As at 1 May 2020	656	1,440	268	1,995	4,359
Depreciation charge	446	761	102	3,727	5,036
Eliminated on disposal	(25)	(3)	(24)	(84)	(136)
Impairment	–	–	–	(193)	(193)
Alignment	616	(416)	13	–	213
As at 30 April 2021	1,693	1,782	359	5,445	9,279
Depreciation charge	**787**	**1,132**	**108**	**4,799**	**6,826**
Impairment	**–**	**–**	**–**	**2,065**	**2,065**
Eliminated on disposal	**(860)**	**(155)**	**(24)**	**(235)**	**(1,274)**
Alignment	**(1)**	**60**	**1**	**–**	**60**
As at 30 April 2022	**1,619**	**2,819**	**444**	**12,074**	**16,956**
Carrying amount					
At 30 April 2022	**6,738**	**2,874**	**628**	**40,663**	**50,903**
At 30 April 2021	6,182	2,674	682	40,406	49,944
At 30 April 2020	2,845	1,990	727	23,749	29,311

Depreciation of £nil (2021: £43,000) and net impairment of £2,065,000 (2021: £546,000) due to leases being classified as onerous is included in non-underlying operating costs.

See note 28 for further details of right of use assets.

23. Contract assets and liabilities

	Contract assets £'000	Trade receivables £'000	Contract liabilities £'000
As at 30 April 2022	**31,777**	**26,643**	**(237)**
As at 30 April 2021	28,530	25,951	(216)
As at 1 May 2020	21,507	22,450	(177)

The movement during the year is not separately identifiable.

Contract assets

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

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

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

If the liability of a matter has been admitted and performance obligations satisfied, such that it is no longer contingent, these matters are valued based on the expected recoverable amount. Due to the complex nature of these matters, they can take a considerable time to be finalised therefore performance obligations may be settled in one period but the matter not billed until a later financial period. The amount of contingent fee work in progress at 30 April 2022 was £7,804,000 (2021: £5,781,000).

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

During the year, contract assets of £3,731,000 (2021: £4,196,000) were acquired in business combinations.

An impairment loss of £41,000 has been recognised in relation to contract assets in the year (2021: £30,000). This is based on the expected credit loss under IFRS 9 of these types of assets. The contract asset loss is estimated at 0.2% (2021: 0.2%) of the balance.

Trade receivables

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

Bills are payable within thirty days of date of issue 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 as the services are performed.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

24. Trade and other receivables

	30 April 2022 £'000	30 April 2021 £'000
Trade receivables	**27,908**	26,953
Impairment provision – trade receivables	**(1,265)**	(1,002)
Prepayments and other receivables	**5,666**	5,570
	32,309	31,521

Trade receivables

The average credit period taken on sales is 31 days as at 30 April 2022 (2021: 36 days). No interest is charged on trade receivables. The Group uses appropriate methods to recover all balances once overdue. Once the expectation of recovery is deemed remote a debt may be written off.

The Group measures the loss allowance for trade receivables at an amount equal to 12 months 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 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:

	2022			2021		
30 April 2022	Gross carrying amount £'000	Expected credit losses £'000	Expected credit loss rate %	Gross carrying amount £'000	Expected credit losses £'000	Expected credit loss rate %
Not past due	**14,553**	**52**	**0.36**	12,925	27	0.21
31-60 days past due	**3,077**	**14**	**0.45**	3,958	9	0.22
61-90 days past due	**1,231**	**4**	**0.34**	1,362	3	0.24
91-120 days past due	**496**	**11**	**2.29**	827	10	1.17
>120 days past due	**2,861**	**854**	**29.88**	2,696	625	23.20
12 month ECL £'000	**22,218**	**935**	**4.21**	21,768	674	3.10

In addition to the above on trade receivables a further £330,000 (2021: £328,000) impairment loss has been recognised against disbursement balances. This is based on 100% impairment against all disbursements with no activity on the matter for over 12 months and 0.2% against the remainder of the balance based upon the expected credit loss of this type of asset.

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows;

	2022 £'000	2021 £'000
Balance at 1 May	**1,002**	553
Increase in loss allowance recognised in profit and loss during the year	**1,200**	1,165
Receivables written off during the year as uncollectable	**(937)**	(716)
Balance at 30 April	**1,265**	1,002

25. Share capital

	Ordinary shares	
	Number	**£'000**
As at 1 May 2020	82,076,332	164
Changes during the period		
Ordinary shares of 0.2p each issued in respect of exercised share options	75,798	–
Ordinary shares of 0.2p each issued in respect of exercised share options equivalent to dividend entitlement	418	–
Ordinary shares of 0.2p each issued as consideration in the purchase of subsidiaries	454,244	1
At 30 April 2021 (allotted, called up and fully paid)	82,606,792	165
Changes during the period		
Ordinary shares of 0.2p each issued in respect of exercised share options	844,347	2
Ordinary shares of 0.2p each issued in respect of exercised share options equivalent to dividend entitlement	2,137	–
Ordinary shares of 0.2p each issued as consideration in the purchase of subsidiaries	1,187,050	2
At 30 April 2022 (allotted, called up and fully paid)	**84,640,326**	**169**

Included in the consideration is the purchase of subsidiaries is 791,990 shares in respect of the purchase of Keebles LLP. The remaining amount is for the purchase of Archers Law LLP (see note 21).

26. Finance lease receivable

The group sub-leases a floor in an office building that was an acquired lease in previous periods. The group has classified the sub-lease as a finance lease because the sub-lease is for the whole of the remaining term of the head lease.

Finance lease receivable	**30 April 2022 £'000**	**30 April 2021 £'000**
More than one year	**1,091**	–
Less than one year	**76**	–
	1,167	–

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	30 April 2022 £'000	**30 April 2021 £'000**
Less than one year	**137**	–
One to five years	**986**	–
More than five years	**164**	–
Unearned finance income	**(120)**	–
	1,167	–

Total lease payments received for the year ended 30 April 2022 was £30,000 (2021: £nil).

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

27. Disposal of subsidiary held for sale

On 25 March 2022 the Group completed the acquisition of Home Property Lawyer (HPL), an entity that provides volume conveyancing services. At the time of acquisition it was noted that the strategic options for this subsidiary were under review.

Following a period of internal review, in April 2022, management committed to a plan to sell HPL. Accordingly, all assets and liabilities are presented as a disposal of subsidiary held for sale. Efforts to sell HPL have started and on 5 July 2022, the Group exchanged contracts to dispose of HPL, subject to regulatory approval. Completion is expected later in July 2022.

No fair value gains or losses have been recognised on reclassification as fair values of assets and liabilities are deemed to be equal to the carrying value at the period end.

At 30 April 2022, HPL was stated at fair value less cost to sell and comprised the following assets and liabilities.

	30 April 2022 £'000
Intangible assets	111
Contract assets	526
Trade and other receivables	428
Cash and cash equivalents	130
Assets held for sale	**1,195**
Trade and other payables	430
Liabilities held for sale	**430**

Assets held for sale do not include £69,765 due from other group entities which have been eliminated on consolidation.

28. Lease liabilities

Incremental borrowing rates applied to individual leases ranged between 1.68% and 6.30%.

The table below sets out the Consolidated Statement of Financial Position as at 30 April 2022 and 30 April 2021:

	30 April 2022 £'000	30 April 2021 £'000
Right-of-use assets		
Property	**39,691**	39,420
Equipment	**972**	986
	40,663	40,406
Lease liability		
More than one year	**41,183**	39,020
Less than one year	**5,345**	3,620
	46,528	42,640

Right of use assets include additions of £7,452,000 (2021: £20,768,000) for property and £916,000 (2021: £232,000) for equipment. There is also depreciation of £4,397,000 (2021: £3,398,000) for property and £402,000 (2021: £329,000) for equipment.

The table below shows lease liabilities maturity analysis – contractual undiscounted cash flows at 30 April 2022:

	30 April 2022			30 April 2021		
	Property £'000	Equipment £'000	Total £'000	Property £'000	Equipment £'000	Total £'000
Less than one year	**6,213**	**496**	**6,709**	4,594	349	4,943
One to five years	**21,313**	**506**	**21,819**	18,313	709	19,022
More than five years	**22,701**	**1**	**22,702**	24,834	–	24,834
	50,227	**1,003**	**51,230**	47,741	1,058	48,799
Less unaccrued future interest	**(4,663)**	**(39)**	**(4,702)**	(6,025)	(134)	(6,159)
	45,564	**964**	**46,528**	41,716	924	42,640

The table below shows amounts recognised in the Consolidated Statement of Comprehensive Income for short term and low value leases as at 30 April 2022:

	30 April 2022			30 April 2021		
	Property £'000	Equipment £'000	Total £'000	Property £'000	Equipment £'000	Total £'000
Expenses relating to short – term leases	**146**	**41**	**187**	244	47	291

For right-of-use asset depreciation and lease interest charges on leases see note 11 and 14. Total lease payments, including for short term and low value leases, for the year ended 30 April 2022 were £5,488,000 (2021: £4,340,000).

29. Borrowings

	30 April 2022 £'000	30 April 2021 £'000
Secured borrowings at amortised cost:		
Bank loans	**32,400**	24,064
Other loans	**753**	–
Total borrowings	**33,153**	24,064
Amount due for settlement within 12 months	**355**	414
Amount due for settlement after 12 months	**32,798**	23,650

The above excludes lease liabilities.

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

The Group has a credit facility of £60,000,000 in total (2021: £40,000,000). The facility remains available until 29 October 2024.

The facility is a revolving credit facility and has the ability to roll on a monthly or quarterly basis and is due for final repayment in October 2024. The facility is secured by a fixed and floating charge over the Group's assets. The facility carries an interest margin above SONIA of between 1.65% and 2.40% depending on the leverage level. A commitment fee of one third of the applicable margin is payable on the undrawn amounts.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

30. Deferred consideration

	30 April 2022 £'000	30 April 2021 £'000
Non-current liabilities		
Deferred consideration	**2,421**	–
Current liabilities		
Deferred consideration	**1,210**	1,095

Deferred consideration as at 30 April 2022 relates to the acquisition of Langleys Solicitors LLP and is not contingent.

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

31. Deferred tax

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

	Accelerated capital allowances £'000	Intangible assets £'000	Share-based payments £'000	IFRS 16 £'000	Total £'000
As at 1 May 2020	396	5,547	(207)	(307)	5,429
Acquisitions of subsidiaries	–	704	–	–	704
Charge/(credit) for the year	148	(411)	(242)	27	(478)
As at 30 April 2021	544	5,840	(449)	(280)	5,655
Acquisitions of subsidiaries	–	454	–	–	454
Adjustments	125	(11)			114
Effect of change in tax rate	244	1,611	(37)	(71)	1,747
Charge/(credit) for the year	479	(112)	(33)	28	362
As at 30 April 2022	**1,392**	**7,782**	**(519)**	**(323)**	**8,332**

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 2022 £'000	30 April 2021 £'000
Deferred tax assets	**(842)**	(729)
Deferred tax liabilities	**9,174**	6,384
	8,332	5,655

32. Trade and other payables

	30 April 2022 £'000	30 April 2021 £'000
Bank overdraft	–	1,852
Trade payables	**4,664**	3,715
Other taxation and social security	**7,370**	6,564
Other payables	**1,978**	2,293
Accrued consideration	–	8,310
Accruals	**7,350**	9,569
	21,362	32,303

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 (2021: 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.

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

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

33. Provisions

	Dilapidation provision £'000	Onerous contract provision £'000	Professional indemnity provision £'000	Total £'000
As at 1 May 2020	1,548	–	598	2,146
Acquisitions of subsidiaries	768	–	296	1,064
Additional provision in the year	1,828	133	195	2,156
Utilisation of provision	(145)	(127)	(220)	(492)
As at 30 April 2021	**3,999**	**6**	**869**	**4,874**
Acquisitions of subsidiaries	507	–	171	678
Additional provision in the year	289	448	550	1,287
Utilisation of provision	(333)	(28)	(375)	(736)
As at 30 April 2022	**4,462**	**426**	**1,215**	**6,103**
Consisting of:				
Non-current liabilities	**3,998**	**333**	**–**	**4,331**
Current liabilities	**464**	**93**	**1,215**	**1,772**

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

34. Financial instruments

Categories of financial instruments

	30 April 2022 £'000	30 April 2021 £'000
Financial assets		
Amortised cost		
Contract assets	**31,777**	28,530
Trade and other receivables (excluding prepayments)	**26,919**	26,421
Lease receivable	**1,167**	–
Cash and cash equivalents	**4,097**	4,783
Financial liabilities		
Amortised cost		
Borrowings	**33,153**	24,064
Bank overdraft	**–**	1,852
Deferred consideration	**3,631**	1,095
Trade and other payables	**13,992**	23,887
Leases	**46,528**	42,640

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 2022 would decrease/increase by £166,000 (2021: decrease/increase by £120,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

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

Credit risk management

Note 24 details the Group's maximum exposure to credit risk and the measurement bases used to determine expected credit losses.

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

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the financial charges on its debt instruments and repayments of principal. There is a risk that the Group will encounter difficulty in meeting its financial obligations as they fall due or not meet its required covenants. The Group manages this risk and its cash flow requirements through detailed annual, monthly and daily 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. In addition, during the year the Group extended its facility to £60,000,000.

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 2022	< 1 year £'000	1-2 years £'000	2-5 years £'000	Total £'000
Borrowings	**355**	**–**	**32,798**	**33,153**
Deferred consideration	**1,210**	**1,210**	**1,211**	**3,631**
Trade and other payables	**13,992**	**–**	**–**	**13,992**

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

The Group has met its covenant tests during the year.

For lease maturity see note 28.

Capital management

The capital structure of the Group consists of borrowings (as disclosed in note 29) and equity of the Group (comprising issued capital, reserves, and retained earnings as disclosed in the Statement of Changes in Equity).

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

Gearing ratio

The gearing ratio at the year end is as follows:

	30 April 2022 £'000	30 April 2021 £'000
Borrowings (note 29)	**33,153**	24,064
Cash and cash equivalents	**(4,097)**	(4,783)
Asset held for sale (note 27)	**(130)**	–
Bank overdraft	**–**	1,852
Net debt	**28,926**	21,133
Equity	**85,659**	82,689
	%	%
Net debt to equity ratio	**34**	26

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.

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For the year ended 30 April 2022

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Profit before taxation	**1,056**	5,509
Adjustments for:		
Amortisation	**3,936**	2,704
Depreciation – property, plant and equipment	**2,027**	1,309
Depreciation – right-of-use assets (net of £nil (2021: £43,000) included in non-underlying costs)	**4,799**	3,684
Loss on disposal of (net of £967,000 (2021: £284,000) included in non-underlying costs)	**16**	33
Contingent consideration expense	**6,267**	5,933
Non-underlying operating costs	**6,572**	3,755
Share based payments	**835**	1,387
Interest income	**(296)**	(398)
Interest expense	**2,364**	1,881
Operating cash flows before movements in working capital	**27,576**	25,797
Decrease/(increase) in contract assets	**628**	(2,827)
Decrease/(increase) in trade and other receivables	**570**	(135)
Increase/(decrease) in provisions	**469**	(263)
Increase in contract liabilities	**21**	39
Decrease in trade and other payables	**(4,204)**	(2,233)
Cash generated from operations	**25,060**	20,378

36. Changes in liabilities arising from financing activities

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

	Borrowings £'000	Leases £'000
As at 1 May 2020	28,650	23,844
New borrowings and leases	19,000	16,763
Acquired	2,801	4,657
Interest (net of £22,000 included in non-underlying)	704	1,177
Interest paid	(573)	(1,199)
Non cash movement	(131)	22
Disposals	–	(60)
Repayments (net of £308,000 included in non-underlying)	(26,387)	(2,564)
As at 1 May 2021	24,064	42,640
New	47,350	3,083
Acquired	3,239	4,695
Interest (net of £25,000 included in non-underlying)	952	1,412
Interest paid	(648)	(1,412)
Non cash movement	(301)	–
Repayments (net of £296,000 included in non-underlying)	(41,503)	(3,890)
As at 30 April 2022	**33,153**	**46,528**

37. 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 UK-adopted International Financial Reporting Standards ('IFRS') 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 2022 £'000	Year ended 30 April 2021 £'000
Operating profit	**3,398**	7,390
Depreciation and amortisation charges (note 11)	**10,778**	7,730
Non-underlying costs (note 13)	**13,260**	10,288
Underlying EBITDA	**27,436**	25,408

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 2022 £'000	Year ended 30 April 2021 £'000
Profit before tax	**1,056**	5,509
Amortisation (adjusted for amortisation on computer software)	**3,815**	2,622
Non-underlying costs (note 13)	**13,260**	10,288
Underlying profit before tax	**18,131**	18,419

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

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
(Loss)/profit after tax	**(2,531)**	3,402
Effect of change in deferred tax rate	**1,747**	–
Amortisation (adjusted for amortisation on computer software)	**3,815**	2,622
Non-underlying operating costs (note 13)	**13,260**	10,288
Tax in respect of the above	**(1,869)**	(1,272)
Underlying profit after tax	**14,422**	15,040

Underlying earnings per share	**Pence**	**Pence**
Basic underlying earnings per share	**17.23**	18.30
Diluted underlying earnings per share	**17.14**	18.07

Tax has been calculated at the corporation tax rate of 19% (2021: 19%) and deferred tax rate of 25% (2021: 19%).

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For the year ended 30 April 2022

37. Alternative performance measures continued

d. Free cash flow and cash conversion %

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Cash generated from operations (note 35)	**25,060**	20,378
Tax paid	**(4,095)**	(2,125)
Total cash outflow for IFRS16 leases	**(5,302)**	(3,741)
Free cashflow	**15,663**	14,512
Underlying profit after tax	**14,422**	15,040
Cash conversion (%)	**109%**	96%

e. Net debt

Net debt is presented as an alternative performance measure to show the net position of the Group after taking account of bank borrowings and cash at bank and in hand.

	30 April 2022 £'000	30 April 2021 £'000
Borrowings (note 29)	**33,153**	24,064
Cash and cash equivalents	**(4,097)**	(4,783)
Asset held for sale (note 27)	**(130)**	–
Bank overdraft	**–**	1,852
Net debt	**28,926**	21,133

38. Capital commitments

As at 30 April 2022 there is a capital commitment of £72,000 (2021: £71,000) in relation to an ongoing office refurbishment.

39. Defined benefit pension schemes

The Stonehams Pension Scheme

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

The Scheme was acquired as part of the acquisition of ASB Law where contracts were exchanged on 5 March 2020. Therefore, the disclosures below represent the period of ownership from 5 March 2020 to 30 April 2022. The scheme is closed and provides benefits for 43 legacy employees (now pensioners and deferred members).

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

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 December 2018. The results of that valuation were updated to 30 April 2022 allowing for cashflows in and out of the Scheme and changes to assumptions over the period. An actuarial valuation as at 31 December 2021 is currently underway, but has not been finalised as at the date of these accounts.

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

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

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

Actuarial assumptions

Principal actuarial assumptions

	30 April 2022 %	30 April 2021 %
Discount rate	**3.05**	1.83
Retail Prices Index ("RPI") Inflation	**4.00**	3.53
Consumer Price Index ("CPI") Inflation	**3.30**	2.83
Pension increase (LPI 5%)	**3.72**	3.36
Pension increase (LPI 2.5%)	**2.34**	2.24
Post retirement mortality	**90%/100% (m/f) S2PA CMI_2020 projections (with standard smoothing parameter of 7.5) using a long-term improvement rate of 1.0% pa**	90%/100% (m/f) S2PA CMI_2020 projections (with standard smoothing parameter of 7.5) using a long-term improvement rate of 1.0% pa
Commutation	**80% of members are assumed to take the maximum tax free cash possible using current commutation factors**	80% of members are assumed to take the maximum tax free cash possible using current commutation factors
Life expectancy at age 65 of male aged 45	**22.6**	22.6
Life expectancy at age 65 of male aged 65	**24.2**	24.1
Life expectancy at age 65 of female aged 45	**23.6**	23.5
Life expectancy at age 65 of female aged 65	**25.3**	25.3

The average duration of the Scheme's obligations is 16 years.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

39. Defined benefit pension schemes continued

The current asset split is as follows:

	Asset allocation at 30 April 2022	Asset allocation at 30 April 2021
Equities and growth assets	**70%**	78%
Bonds, LDI and cash	**30%**	22%

	Value as at 30 April 2022 £'000	Value as at 30 April 2021 £'000
Fair value of assets	**3,047**	3,255
Present value of funded obligations	**(2,355)**	(2,791)
Surplus in scheme	**692**	464
Deferred tax	**–**	–
Net defined benefit surplus after deferred tax	**692**	464

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

	Value as at 30 April 2022 £'000	Value as at 30 April 2021 £'000
Low risk investment funds	**625**	720
Credit Investment funds	**1,513**	1,673
Matching funds	**–**	691
Cash	**909**	171
Fair value of assets	**3,047**	3,255

	30 April 2022 £'000	30 April 2021 £'000
Administration costs	**28**	29
Net interest on liabilities	**(8)**	(10)
Total charge to the Statement of Comprehensive Income	**20**	19

Remeasurements over the period since acquisition

	30 April 2022 £'000	30 April 2021 £'000
Loss on assets in excess of interest	**(115)**	(17)
Gain/(loss) on scheme obligation from assumptions and experience	**361**	(157)
Gain on scheme obligations due to scheme experience	**2**	5
Total remeasurements	**248**	(169)

The change in value of assets

	30 April 2022 £'000	30 April 2021 £'000
Fair value of assets bought forward	**3,255**	3,384
Interest on assets	**58**	50
Benefits paid	**(123)**	(133)
Administration costs	**(28)**	(29)
Loss on assets in excess of interest	**(115)**	(17)
Fair value of assets carried forward	**3,047**	3,255
Actual return on assets	**(57)**	33

Change in value of liabilities

	30 April 2022 £'000	30 April 2021 £'000
Value of liabilities bought forward	**2,791**	2,732
Interest cost	**50**	40
Benefits paid	**(123)**	(133)
Actuarial gain	**(363)**	152
Value of liabilities carried forward	**2,355**	2,791

Sensitivity of the value placed on the liabilities

Approximate effect on liability

	30 April 2022 £'000	30 April 2021 £'000
Discount rate		
Minus 0.50%	**191**	229
Inflation		
Plus 0.50%	**139**	164
Life Expectancy		
Plus 1.0 years	**102**	113

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2022

39. Defined benefit pension schemes continued

The With Profits Section of the Cheviot pension

Allocation of liabilities between employers

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

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

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

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

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

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

Estimated funding position as at 30 April:

	Scheme funding basis	
	30 April 2022 £'000	**30 April 2021 £'000**
Total assets	**80,100**	92,200
Total liabilities excluding expenses	**(78,500)**	(88,600)
Surplus	**1,600**	3,600
Funding level	**102%**	104%

Allocation to the Group

The estimated share of the Scheme liabilities is 0.790%.

Over the year to 30 April 2022, the Section's funding position remained as a small surplus.

	30 April 2022 £'000	**30 April 2021 £'000**
Estimated cost of providing benefits	**(620)**	(700)
Value of assets	**633**	728
Resulting surplus	**13**	28
Funding level	**102%**	104%

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

The Trustee continues to monitor the funding position.

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

40. Related party transactions

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

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

The Group leases a property from KPV Propco Ltd. During the year rents of £376,000 (2021: £376,000) were charged by KPV Propco Ltd to the Group. A FRI lease of The Brampton, Newcastle-under-Lyme was granted for a term of 25 years from and including 24 July 2017 to 24 July 2039 at a current rent of £376,000 per annum (excluding VAT).

The Group received a contribution for repair work in the year from KPV Propco Ltd of £nil (2021: £26,000). These repairs relate to the building and site and were therefore paid by KPV Propco Ltd.

During the year Knights Professional Services Limited charged KPV Propco Ltd for professional services totalling £1,000 (2021: £126,000).

At 30 April 2022, there was an amount of £55,000 owed by the Group to KPV Propco Ltd (2021: £3,000 owed to KPV Propco Ltd by the Group).

During the year Knights Professional Services Limited provided legal services to the Directors in an individual capacity of £77,000 (2021: £154,000). At 30 April 2022, there was an amount of £nil (2021: £1,000) owed to the Group from the Directore.

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 2022 £'000	Year ended 30 April 2021 £'000
Short-term employee benefits and social security costs	**1,424**	1,193
Gains on exercise of options	**913**	–
Pension costs	**25**	22
Share-based payments	**(132)**	209
	2,230	1,424

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

Transactions with Directors

Dividends totalling £250,000 (2021: £nil) were paid in the year in respect of ordinary shares held by the Company's directors.

41. Post balance sheet events

On 19 May 2022 the Group exchanged contracts to acquire 100% of the voting rights of Coffin Mew LLP, an independent law firm based primarily in Portsmouth with offices in Southampton, Brighton and Newbury. Total consideration payable is £11.5million subject to working capital adjustments at the time of completion. This comprises £5.5m cash, £1 million of new ordinary shares in the Group, along with deferred cash consideration of £5 million to be paid over three years. The acquisition of Coffin Mew provides Knights with entry into new markets and adds scale to the Group's existing service offerings. The transaction completed on 8 July 2022 and the assets and liabilities of Coffin Mew LLP were hived up into Knights Professional Services Limited.

Initial accounting for the business combination is not yet complete and the fair value of net assets acquired has not yet been determined; accordingly details of the assets acquired and liabilities assumed, and goodwill arising on acquisition, cannot be given.

In its unaudited accounts for the year ended 31 March 2022, Coffin Mew reported revenue of £11.3m with a corporatised PBT margin of circa 8%. Following full integration and realisation of all synergies, the Board expect Coffin Mew to contribute a PBT margin of circa 16% which, combined with a typical level of revenue churn post-acquisition, means the acquisition is expected to be immediately earnings enhancing.

On 5 July 2022, contracts were exchanged in relation to the sale of HPL. The sale is expected to complete later in July 2022 subject to regulatory approval.

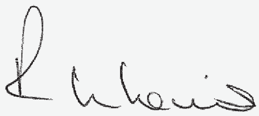
Company Statement of Financial Position

As at 30 April 2022

	Note	30 April 2022 £'000	30 April 2021 £'000
Assets			
Non-current assets			
Investments in subsidiaries	45	**2,267**	2,363
Amounts receivable from subsidiaries	46	**80,665**	73,210
		82,932	75,573
Current assets			
Trade and other receivables		**25**	31
Total assets		**82,957**	75,604
Equity and liabilities			
Equity			
Share capital		**169**	165
Share premium		**74,264**	68,369
Share based payment reserve		**3,199**	2,364
Other reserve		**(100)**	(100)
Retained earnings		**5,217**	4,315
Equity attributable to owners of the Company		**82,749**	75,113
Current liabilities			
Trade and other payables		**76**	81
Corporation tax liability		**132**	410
Total liabilities		**208**	491
Total equity and liabilities		**82,957**	75,604

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company reported a profit for the year ended 30 April 2022 of £2,135,000 (2021: £1,750,000).

The financial statements were approved by the Board and authorised for issue on 11 July 2022 and are signed on its behalf by:



Kate Lewis
Director
Registered No. 11290101

Company Statement of Changes in Equity

For the year ended 30 April 2022

	Share capital £'000	Share premium £'000	Share based payments £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2020	164	66,252	1,145	(100)	2,565	70,026
Profit for the period and total comprehensive income	–	–	–	–	1,750	1,750
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	–	–	1,219	–	–	1,219
Issue of shares	1	2,117	–	–	–	2,118
At 30 April 2021	**165**	**68,369**	**2,364**	**(100)**	**4,315**	**75,113**
Profit for the period and total comprehensive income	**–**	**–**	**–**	**–**	**2,135**	**2,135**
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	**–**	**–**	**835**	**–**	**–**	**835**
Issue of shares	**4**	**5,895**	**–**	**–**	**–**	**5,899**
Dividends	**–**	**–**	**–**	**–**	**(1,233)**	**(1,233)**
Balance at 30 April 2022	**169**	**74,264**	**3,199**	**(100)**	**5,217**	**82,749**

Notes to the Company Financial Statements

42. 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.

43. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 42, 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.

44. Profit for the year

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

The auditor's remuneration for audit and other services is disclosed in note 16 to the consolidated financial statements.

The average monthly number of employees comprised of the executive directors and non-executive directors and was 6 (2021: 6). Their aggregate remuneration borne by the Company was £nil (2021: £nil). All remuneration is borne by a subsidiary entity and no recharge is made to the Company in respect of their services as it is not practicable to allocate the costs appropriately.

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

45. Investments in subsidiaries

	£'000
Cost and net book value	
At 30 April 2020	1,145
Capital contribution in respect of equity-settled share-based payments	1,219
At 30 April 2021	2,364
Capital contribution in respect of equity-settled share-based payments	835
Recharge of exercised share options	(932)
At 30 April 2022	**2,267**

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

Details of the Company's subsidiaries at 30 April 2022 are as follows:

Name	Place of business and registered office address	Principal activity	Class of shares	Proportion of ownership interest %	Proportion of voting power held %
Knights 1759 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Holding company	Ordinary	100%	100%
Knights Professional Services Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Provision of legal and professional services	Ordinary	100%	100%
Turner Parkinson LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.99%	99.99%
Spearing Waite LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.99%	99.99%
Darbys Solicitors LLP	Midland House West Way, Botley, Oxford, OX2 0PH	Dormant	N/A	99.99%	99.99%
Knights Solicitors LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
BrookStreet des Roches LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.99%	99.99%
K & S Secretaries Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Knights Trustee Company No.1 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Knights Trustee Company No.2 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
K & S Directors Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
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%
ASB Aspire Limited Liability Partnership	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
ASB Law LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Gavin White Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Richard Wollacott Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Clive Day Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
ERT Law Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%

Notes to the Company Financial Statements continued

45. Investments in subsidiaries continued

Name	Place of business and registered office address	Principal activity	Class of shares	Proportion of ownership interest %	Proportion of voting power held %
Dakeyne Emms Gilmore Liberson Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	D Ordinary E Ordinary G Ordinary L Ordinary	100%	100%
Shulmans LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.9%	99.9%
SLS Trust Corporation Limited**	C/O Shulmans LLP, 10 Wellington Place, Leeds, England, LS1 4AP	Dormant	Ordinary	100%	100%
OTB Eveling LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%**	100%
Mundays LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%**	100%
K & S Trust Corporation Limited**	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Knights Wealth Management Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Keebles LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
KH Injury Lawyers Limited**	14 Commercial Street, Sheffield, England, S1 2AT	Dormant	Ordinary	100%	100%
Archers Law Limited Liability Partnership*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Langleys Solicitors LLP*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Langleys Law Firm Limited*	Queens House, Micklegate, York, North Yorkshire, YO1 6WG	Dormant	Ordinary	100%	100%
Home Property Lawyers Limited	Queens House, Micklegate, York, North Yorkshire, YO1 6WG	Provision of Legal Services	Ordinary	100%	100%

* The acquired entities were active during the financial year, but are dormant as at 30 April 2022.

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

*** Legal title is held on behalf of nominees.

46. Amounts receivable from subsidiaries

	30 April 2022 £'000	30 April 2021 £'000
Amounts receivable from subsidiaries	**80,665**	73,210

Amounts receivable from subsidiaries are unsecured and 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 12 month 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 (2021: £nil) against amounts receivable from subsidiaries.

47. Capital and reserves

The movements on share capital are disclosed in note 25 to the consolidated financial statements.

Share premium represents consideration received for shares issued above their nominal value net of transaction costs.

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

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

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

Glossary of Terms

Financial Performance Measure

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

Underlying EBITDA

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Operating profit	**3,398**	7,390
Depreciation and amortisation charges	**10,778**	7,730
Non-underlying costs (note 13)	**13,260**	10,288
Underlying EBITDA	**27,436**	25,408

Underlying Profit Before Tax (PBT)

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Profit before tax	**1,056**	5,509
Amortisation of acquired intangibles	**3,815**	2,622
Non-underlying costs (note 13)	**13,260**	10,288
Underlying profit before tax	**18,131**	**18,419**

Underlying Operating profit to Underlying Profit Before Tax (PBT)

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Operating profit before non-underlying charges	**16,658**	17,678
Less: Finance costs	**(2,364)**	(1,881)
Add: Amortisation of acquired intangibles	**3,815**	2,622
Add: Finance income	**22**	–
Underlying profit before tax	**18,131**	18,419

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

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
(Loss)/Profit after tax	**(2,531)**	3,402
Effect of change in tax rate	**1,747**	–
Amortisation of acquired intangibles	**3,815**	2,622
Non-underlying operating costs (note 13)	**13,260**	10,288
Tax in respect of the above	**(1,869)**	(1,272)
Underlying profit after tax	**14,422**	15,040
Underlying earnings per share	**Pence**	Pence
Basic underlying earnings per share	**17.23**	18.30
Diluted underlying earnings per share	**17.14**	18.07

Free Cash Flow and Cash Conversion %

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

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

	Year ended 30 April 2022 £'000	Year ended 30 April 2021 £'000
Cash generated from operations (note 35)	**25,060**	20,378
Tax paid	**(4,095)**	(2,125)
Total cash outflow for IFRS16 leases	**(5,302)**	(3,741)
Free cashflow	**15,663**	14,512
Underlying profit after tax	**14,422**	15,040
Cash conversion (%)	**109%**	96%

Net debt

Net debt is presented as an alternative performance measure to show the net position of the Group after taking account of bank borrowings and cash at bank and in hand.

	30 April 2022 £'000	30 April 2021 £'000
Borrowings (note 29)	**33,153**	24,064
Cash and cash equivalents	**(4,097)**	(4,783)
Asset held for sale (note 27)	**(130)**	–
Bank overdraft	**–**	1,852
Net debt	**28,926**	21,133

Working Capital

Working capital is calculated as:

	30 April 2022 £'000	30 April 2021 £'000
Current assets		
Contract assets	**31,777**	28,530
Trade and other receivables	**32,309**	31,521
Corporation tax receivable	**1,815**	–
Total current assets	**65,901**	60,051
Current liabilities		
Trade and other payables	**21,362**	32,303
Overdraft included in payables	**–**	(1,852)
Less accrued consideration included in trade and other payables	**–**	(8,310)
Contract liabilities	**237**	216
Corporation tax liability	**–**	765
Total current liabilities	**21,599**	23,122
Net working capital	**44,302**	36,929

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. Churn excludes expected churn from acquisitions.

Fee Earner Concentration

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

Client Concentration

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

Client Satisfaction

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

Colleague Satisfaction

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

Fee Earners

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

Non-Fee Earners/Support Staff

This includes all employees that are not fee earning.

Recurring Revenue

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

Lock Up

This is calculated as the combined debtor and WIP days as at a point in time. Debtor days are calculated on a count back basis using the gross debtors at the period end and compared with the total fees raised over prior months. WIP (work in progress) days are calculated based on the gross work in progress (excluding that relating to clinical negligence claims, insolvency, highways and ground rents as these matters operate on a mainly conditional fee arrangement and a different profile to the rest of the business) and calculating how many days billing this relates to, based on average fees (again excluding clinical negligence, insolvency, highways and ground rents fees) per month for the last 3 months.

Lock up days excludes the impact of acquisitions in the last quarter of the financial year.

Organic growth

Organic growth excludes revenue growth from acquisitions in the year of their acquisition, and for the first full financial year following acquisition, based on the fees generated by the individuals joining the Group from the acquired entity. Recruitment of individuals into the acquired offices post acquisition is treated as part of the organic growth of the business.

Shareholder Information

Directors

DA Beech (appointed 4 April 2018)
KL Lewis (appointed 9 May 2018)
RA King (appointed 1 June 2018, resigned 18 May 2022)
BS Johal (appointed 1 June 2018)
G Davies (appointed 17 March 2021)
J Pateman (appointed 14 January 2019)

Secretary

L Bridgwood (appointed 1 June 2018)

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Registered number

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Independent auditor

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