COMPANY REGISTRATION NO. 42316 (GUERNSEY)

KINGSWOOD

KINGSWOOD HOLDINGS LIMITED

# ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2021

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# KINGSWOOD AT A GLANCE

- Kingswood Holdings Limited and its subsidiaries (the "Group" or "Kingswood") is an international, fully integrated wealth and investment management business listed on the AIM market of the London Stock Exchange under ticker symbol (AIM: KWG).

- Kingswood offers a range of wealth planning and investment management solutions to its clients, which range from private individuals to some of the UK's largest universities and institutions. Kingswood is focussed on becoming a leading participant in its sector through targeted acquisitions in the UK and US, complemented by strong organic growth to create a global wealth management business.

- The Group's core proposition centres on primary offerings in wealth planning and investment management to deliver best in class financial solutions for clients.

**<u>The Kingswood Group today comprises:</u>**


## 2021 HIGHLIGHTS

**Strategic Highlights**

- Several key UK acquisitions were completed in 2021, including Admiral Wealth Management Ltd, Smythe and Walter Ltd, Money Matters (North-East) Ltd, contributing to an increase in Kingswood's reported Assets under Management and Advice (AUM/A) balance to £6.8bn at 31 December 2021. Metnor Holdings Limited was acquired on 31 December 2021 with AUM of £1.5bn, increasing the Group AUM/A to £8.3bn.
- A further five UK acquisitions have completed in 2022, as outlined in note 33 of the Notes to the Financial Statements, contributing to an increase in Group AUM/A to c.£9.0bn.
- In March 2022, we launched the 'Kingswood Go' app to provide clients with easier access to their investments. The app consolidates available financial data into one place to present a clear view of a client's finances, provides safe storage of key documents and a secure messaging system that allows clients to contact their investment manager and Kingswood adviser directly.
- 2021 was a year of growth for the Kingswood US Registered Investment Adviser (RIA) and Independent Broker Dealer (IBD) business. We increased the number of registered representatives by 37 to 211 and grew our total assets under management by $0.5bn to $2.5bn.
- The Kingswood US Investment Banking business completed over 100 transactions with over $9.0bn capital raised for clients.
- In January 2022, Kingswood Capital Partners and Skyway Capital Markets LLC announced an exclusive partnership in which the Skyway investment banking team will work closely with Kingswood advisors and their clients to execute M&A transactions.

**2021 Financial Highlights**

- Group revenue was £149.7m, a 488% increase on prior year (2020: £25.5m), reflecting growth in the US and the impact of 2020 and 2021 in-year acquisitions in the UK.
- 87% of the UK's revenue is recurring in nature, providing a strong, annuity-style fee stream. Investment Banking Fees are a larger portion of Kingswood US revenues, and transactional in nature, which mean that recurring revenue in the US was 7.4%. Combined, Group recurring revenue was 19.0%.
- Operating Profit of £6.3m was £5.5m higher compared to 2020. The Kingswood Board believes Operating Profit is the most appropriate indicator to explain the underlying performance of the Group. The definition of Operating Profit is profit before finance costs, amortisation and depreciation, gains and losses, and exceptional costs (business re-positioning and transaction costs).

| **£000's** (Unless otherwise stated) | **2021*** | **2020** | **2019** |
|---|---|---|---|
| Total Revenue | **149,716** | 25,477 | 10,053 |
| Recurring Revenue % | **19.0%** | 61.0% | 83.0% |
| Operating Profit | **6,327** | 862 | 211 |
| Total Equity | **76,898** | 50,152 | 28,201 |
| AUM/A (£m) | **6,772** | 5,912 | 2,471 |
| # of Advisers - UK | **70** | 64 | 40 |
| # of Authorised Representatives - US | **211** | 174 | - |

**AUM/A excludes the impact of Metnor Holdings Limited, which was acquired on 31 December 2021 with AUM of £1.5bn. Including Metnor 2021 AUM/A increases to £8.3bn*

# CHAIRMAN'S STATEMENT

In my first year as Chair of Kingswood I have been impressed by the strong progress we are making in achieving our long-term strategy to become a leading international fully integrated wealth and investment management business. I am immensely proud of our dedicated team who have navigated the continued challenges of the pandemic in 2021, while delivering outstanding service to our clients both in the UK and US.

2021 has been a transformational year for Kingswood. Despite the challenges faced, I am pleased to report record levels of revenue and operating profit with significant growth across Wealth Planning (WP), Investment Management (IM), and the US. We have a strong, well-capitalised balance sheet and have benefited from our partnership with Pollen Street Capital which has now invested £77.4m to enable our acquisition and growth strategies. Through investment and growth, at the time of writing this report we employ 292 people across the globe and manage c.£9.0bn of client assets.

In the UK, Kingswood has completely transformed itself within the space of a few years creating a highly successful, fast growing, vertically integrated wealth and investment management business. The UK wealth management sector continues to exhibit strong, long-term growth characteristics supported by demographic trends, a complex regulatory environment, and ongoing consolidation within a fragmented industry. Our acquisition strategy takes advantage of this by providing a seamless transition process with a centralised support service and investment proposition that allows advisers to spend more of their time with their clients. Since 2018, the Group has acquired 14 UK wealth management businesses which are projected to deliver strong, sustainable revenues and operating profit. We now have over 85 financial advisers and investment managers operating across 18 regional offices to support our retail and institutional client base. Under the leadership of David Lawrence, growth is supported by a strong and unrelenting focus on our client experience, supported by a progressive investment in technology and an equal investment in our colleagues, all of which is underpinned by strong integration and operational excellence.

Under the leadership of Mike Nessim, our US CEO, the US business has delivered exceptional levels of growth in 2021 through three core divisions: Independent Broker Dealers, Registered Investment Advisers, and Investment Banking. The Investment Banking business completed over 100 transactions, raising c.$9.0bn capital for clients. The RIA and IBD business increased its advisor representatives to 211 by December 2021, managing c.$2.5bn of client assets. With a strong business model and an exceptional leadership team playing in the largest global wealth management market, the Kingswood US business is well set for further growth in the coming years.

The Board places great importance on building a business with strong governance and a culture that supports sustainable long-term success. With that in mind we focus on where we can make the largest positive impact on the environment, both in measuring and reducing our carbon footprint and offering clients a suite of ESG portfolios which consider environmental social and governance issues. We are committed to creating a workplace and culture that is welcoming and inclusive for everyone and have taken steps to enhance this in 2021 through the creation of an employee-led Diversity and Inclusion Forum. We will continue to make a significant investment in Learning and Development for all colleagues by launching career paths and supporting colleagues with their professional and career development.

We are investing in our client experience through technology and other means. We launched our client portal in 2021 in the UK, Kingswood Go, which allows clients to have single sign-on single client view across multiple platforms which has transformed our client experience. In the US we have invested in technology infrastructure to provide advisors with a superior integrated wealth management platform offering products such as Annuities, Equities, Alternatives, and Mutual Funds. In addition, Kingswood US has integrated a new fully automated alternative platform, a fully automated CRM and a leading back-office processing system.

The Board continues to operate a robust risk management framework so that we can maintain compliance with our regulatory responsibilities and ensure both customers and suppliers are always treated fairly. Jonathan Freeman, in his capacity as an independent Non-Executive Director, continues to assume responsibility for ensuring that the Group has appropriate corporate governance standards in place and that these standards are applied within the Group as a whole.

We were delighted to have recently announced that David Lawrence has been appointed to the Board as Chief Executive Officer. The Board is confident David will take the business to another level over the coming years to fully realise its potential. I would like to express huge thanks to Gary Wilder for stepping into the Group CEO role over three years ago and having the vision for what Kingswood can become both domestically and internationally. The Board will continue to benefit from this as Gary steps back into a non-executive role. Jon Millam was appointed to the role of Group Chief Financial Officer in August 2021, joining us with the credentials to lead our finance function through the next stage of our journey. I am also pleased to welcome Richard Avery-Wright to the Boards of our UK regulated subsidiaries, KW Wealth Planning Limited and KW Investment Management Limited. Richard will be a strong addition to the Group's governance and brings a deep and highly successful track record of building and creating value.

## CHAIRMAN'S STATEMENT

Turning to 2022, the terrible events unfolding in Ukraine, the re-emergence of significant geopolitical risk and inflationary pressure have created a great deal of uncertainty in the outlook for the year. Despite these macro-economic pressures, however, I expect 2022 to be another transformational year for the Group. We have already completed five UK acquisitions this year and have a strong pipeline for future acquisitions. The US has successfully recruited seven financial advisers who collectively oversee $295m in client assets. The progress that David and Mike and their respective teams have made in the last two years will ensure we continue to deliver on our strategic priorities and remain well placed for growth as we move forwards.

Finally, on behalf of the Board, I would like to thank our management team and all our colleagues for their effort, focus and commitment to achieving our goals in what has continued to be a challenging operating environment.

**David Hudd**

**Chairman**

**Date: June 2022**

# GROUP CHIEF EXECUTIVE OFFICER STATEMENT

**Introduction**

I am delighted to present our financial results for 2021, my first full financial year as UK Chief Executive Officer. 2021 was a year which saw significant progress in the growth of both our UK and US businesses. Whilst I joined the board of Kingswood Holdings Limited as Chief Executive Officer in April 2022, for the purpose of these results I have focused my commentary on the progress of the UK business, and am grateful to Mike Nessim, whose exceptional leadership is delivering a great performance in the US, for his separate commentary on the US.

**Market Overview**

Despite the general economic uncertainty, the UK wealth management sector continues to exhibit strong, long-term growth characteristics as supported by demographic trends, increasing complexity in laws and regulations and the consolidation of what is a highly fragmented sector in financial services.

The so called “advice gap” represents a significant opportunity for firms to provide accessible advice to clients that are either under-served or in many cases unserved. The need for financial advice has never been greater and in this sense firms such as Kingswood can help fulfil what I believe to be a societal need.

Our clients want us to provide sound advice on some of the things that matter most in life. They trust us to do this well and, in most cases, also want us to manage their investments. This convergence of financial advice and investment management is the cornerstone of Kingswood’s strategy and business model.

The resilience of the sector during Covid-19, the speed and scale of regulatory change and higher sale multiples continues to drive high levels of consolidation. Multiple numbers of acquirers are now also operating in the sector making for a highly competitive environment. Despite this, Kingswood continues to demonstrate a strong track record in sourcing and securing acquisitions and in doing so is quickly building scale. The opportunity remains strong with over 2,750 firms across UK with 2-50 advisers representing potential targets.

**Business overview**

We have a single-minded focus on both Financial Advice / Planning and Investment management activity, relying on leading market external expertise for other aspects of the client value-chain.

Our Financial Advisers take time to understand our clients, their goals and what is important to them. From this, we are then able to provide a comprehensive range of solutions to meet their needs. By building enduring relationships with clients, we can help realise the best of financial outcomes for them. Our taglines of ‘*Advice Every Step of the Way’* and ‘*Protect and Grow’* are perfect manifestations of this.

Our investment managers and research teams have deep capability in both the manufacture and distribution of investment solutions, where we can exhibit a strong long-term track record of high performance and low volatility and a great level of client support and service.

For our Kingswood advisers, we operate a Central Investment Proposition (CIP) which is Discretionary in nature and comprises a set of active risk rated core Model Portfolios. Complementary models are also available such as Passive, ESG and / or Income variants. These solutions are available on most of the recognised third-party platforms. For some clients with more complex needs, we also offer a more personalised, tailored approach, including the introduction of an investment manager into the client relationship where appropriate.

Following the acquisition of IBOSS Asset Management (IBOSS AM) in December 2021, our new client CIP is now the IBOSS range of model portfolios. Work is underway to align the Kingswood MPS to this during 2022. Through IBOSS, the business now also distributes discretionary and advisory solutions to IFA firms across the UK that complement our internal distribution.

For the institutional market, our long-standing Fixed Income business provides a treasury service to institutional clients, typically UK Universities.

**Delivering Business Growth**

The UK strategy is focussed on building a leading business in the sector. Our delivery of this is through the optimising of a series of value drivers:

# GROUP CHIEF EXECUTIVE OFFICER STATEMENT

1. **Acquisition**

   I am delighted that we were able to purchase the businesses of Admiral Wealth Management, Smythe and Walters, Money Matters (North East), and Metnor Holdings (compromising Novus Financial Services and IBOSS AM) in 2021. Collectively these acquisitions add £2.4m of annual operating profit and c.£1.8bn AUM/A. The acquisition of Metnor Holdings completed on 31 December 2021, which included c.£1.5bn of AUM/A.

   In 2022, Kingswood has purchased a further five businesses - Allots Financial Services, Joseph R Lamb Financial Advisers, DJ Cooke Life and Pensions, AiM Independent Financial advisers and Vincent & Co Ltd. Collectively these acquisitions have added £2.7m of annual operating profit and c.£0.8bn AUA.

2. **Integration**

   Effective integration is critical to an acquisitive business. We have built a highly effective, collaborative and repeatable process for integration which is both client and colleague centric and respectful of the business being purchased. Ably led by our COO Harriet Griffin, we are now able to substantially integrate a business within three months of purchase where so desired.

3. **Organic Growth**

   Kingswood is typically purchasing businesses where the principals remain committed and, in many cases, have unfulfilled ambition but welcome a freeing up of some of the bureaucracy that has crept in to allow them to get back to advising clients. By creating the right environment for this and supporting the business where needed, all Kingswood purchased businesses are showing healthy organic growth. I was delighted to hire Hayley Burton to lead our Midlands and South teams earlier this year and she will work alongside Jeff Grantham in the North who both provide strong and purposeful leadership.

4. **Investment Management**

   Kingswood's purchase of IBOSS AM has transformed its CIP by introducing an investment solution that has a long-term track record of high performance and low volatility, supported by an award-winning service proposition. Capably led by our CIO Chris Metcalfe and Head of Investment Management, Paul Surguy, the IBOSS proposition, alongside the Kingswood Personal Portfolio Service creates a strong investment solution for our clients and enables high levels of asset migration, where suitable, for the client.

   The purchase of IBOSS also created an open market distribution for the Kingswood Group to UK IFA's. We hope to build on this during 2022 and support some of these firms with exit strategies as and when appropriate. The combination of stronger asset flows originating from vertical integration and a growth in the number of firms served by IBOSS will fuel this driver of growth.

   Nigel Davies continues to ably lead our Fixed Income business, serving the treasury needs of some leading UK Universities, a business that each year generates continued and sustainable growth.

5. **Building a leading business**

   a. Under the capable leadership of Rachel Bailey (CPO), we are actively investing in our colleague proposition with a clear aim to become a magnetic people business. This includes a significant investment in Learning and Development for all colleagues, the launch of career paths and supporting colleagues with their professional and career development. We were delighted to appoint Ellie Pilkington to lead this area in the latter part of 2021. We have had two colleagues successfully graduate from our adviser academy and have launched a new academy programme in 2022.

      Diversity is a challenge in our sector. We are a significantly more effective organisation for the diversity that exists across my leadership team and are actively working to address imbalance elsewhere, not least in the adviser community where currently only 15% of our advisers are female.

   b. We are investing in our client experience through technology and other means. We have been delighted to make two senior hires in this area over the past twelve months - Lucy Whitehead as Chief Client Officer and Christopher Calvocoressi as Head of Technology Transformation. We launched our client portal 'Kingswood Go' in 2021 to transform our client experience by enabling a single client investment view across multiple platforms. We have an ambitious technology programme to deliver over the next 12-18 months which will digitise the client journey and open up new propositions for existing and target clients.

   c. We have invested in our Finance and Compliance functions under the leadership of Jon Millam and Richard Bernstein to create centres of excellence to support our core and acquired businesses.

# GROUP CHIEF EXECUTIVE OFFICER STATEMENT

**Dimensions**

As at 31 December 2021, the UK business had 203 employees of which 70 were client facing financial advisers and investment managers operating from 14 sites across the UK with £1.7bn Assets under Management (AUM) and a further £3.2bn Asset under Advice (AUA). At time of writing this has increased to c.270 employees of which 85 are client facing financial advisers and investment managers operating from 18 sites across the UK with £3.0bn AUM and £4.0bn AUA.

| **UK KPIs** | **Now** | **2021*** | **2020** | **2019** |
|---|---|---|---|---|
| Employees | **272** | **203** | 185 | 121 |
| Advisers | **85** | **70** | 64 | 40 |
| Locations | **18** | **14** | 11 | 7 |
| AUM (£bn) | **3.0** | **1.7** | 1.4 | 1.0 |
| AUA (£bn) | **4.0** | **3.2** | 2.8 | 1.5 |
| Total AUM/A (£bn) | **7.0** | **4.9** | 4.2 | 2.5 |

**AUM/A excludes the impact of Metnor Holdings Limited, which was acquired on 31 December 2021 with AUM of £1.5bn. Including Metnor 2021 AUM/A increases to £8.3bn*

**Outlook**

Building on the 9 acquisitions completed under my leadership to date and those that came before, we have a further 8 purchase transactions in exclusive due diligence comprising a total annual operating profit of £7.7m. We expect to conclude these transactions in the third quarter of 2022. In addition, we have a healthy pipeline of future opportunities at various stage of study and negotiation.

Organic growth is a core focus post integration where we can confidently expect year on year growth in initial and ongoing fees from accretive assets under influence.

The purchase of IBOSS is a game changer for Kingswood - it offers a stronger central investment proposition, provides an independent open market distribution channel to a growing number of IFA's across the UK and creates exit strategies for wealth management businesses. All three business development opportunities are gaining traction in 2022.

I believe to be a truly successful firm we must put the client at the heart of the relationship, be highly accessible, have a clear proposition and most importantly provide great value for money. Our staff and technology are key enablers to deliver this success and will therefore be critical pillars of our strategy today and moving forwards.

**Key Performance Indicators**

Jon Millam, Group CFO, presents the financial performance of the Group in his section but total revenue for the UK was £21.9m in 2021, a £4.7m increase on the prior year reflecting the impact of recent acquisitions. 87% of UK revenue is recurring in nature providing a strong, annuity style fee stream which is critical to delivering sustainable, long term returns to shareholders.

| **£000's** (Unless otherwise stated) | **2021** | **2020** | **2019** |
|---|---|---|---|
| Total Revenue | **21,889** | 17,155 | 10,053 |
| Recurring Revenue % | **87%** | 84% | 83% |
| WP & IM Operating Profit | **6,144** | 4,273 | 1,995 |
| AUM/A (£m) | **4,883** | 4,378 | 2,471 |
| # of Advisers - UK | **70** | 64 | 40 |

**AUM/A excludes the impact of Metnor Holdings Limited, which was acquired on 31 December 2021 with AUM of £1.5bn. Including Metnor 2021 AUM/A increases to £8.3bn*

To end, growing a sustainable business at the pace at which we are doing it requires colleagues who are special individuals. I am proud, not only my leadership team, but of what everyone at Kingswood does each and every day for our clients and each other, without which the exciting story as outlined in this report is not possible.

**David Lawrence**

**Chief Executive Officer**

**June 2022**

# US CHIEF EXECUTIVE OFFICER STATEMENT

**Introduction**

Kingswood US is a premier wealth management firm with over $2.5bn AUM and offices throughout the United States. With both an SEC-registered RIAs and a FINRA-licensed broker/dealer in-house alongside an institutional-quality product offering and a personal approach to service, Kingswood is an ideal partner for independent financial advisors looking for a new place to call home. The business also includes Kingwood Capital Markets, a national investment banking platform that leverages our expanding distribution channels and drives growth across equity and debt advisory, capital raising and M&A.

2021 was another year of growth and business expansion for Kingswood US. We added 37 new registered representatives, which further expanded our US footprint and grew our AUM by $0.5bn. We continued to grow the team, seek out strategic relationships to help these advisors expand their infrastructure and technology ecosystem, and work with innovative investment providers to help meet the needs of our financial advisors and their clients.

In June 2021, the banking division of Benchmark Investments changed their name to EF Hutton. Over the course of 2021, EF Hutton completed over 100 deals – including IPOs, SPACS, follow-on offerings, preferred stock offerings and debt placements – raising over $9 billion for their clients across both debt and equity markets.

**Market Overview**

The US retail wealth market is large and remains fragmented. The distribution channels vary substantially in terms of business models and approaches to client service. The market can be broken down into the broker-dealer channel (commission-based) and the RIA channel (fee-based).

The total market size is estimated at over $26 trillion with close to 315,000 advisors, representing a 12% 5-year CAGR, with independent market channels such as IBDs and RIAs experiencing the fastest growth relative to typical wire-house channels.

The shift to independence by the financial advisor community has been supported by a number of factors such as greater control of their books and increased compensation. The overall retail wealth management sector is experiencing substantial growth due to an aging population with excess disposable income, overall wealth accumulation, and an increased demand for financial advisors. Robo-advice is increasingly displacing advisors with smaller productions at wire-houses, expanding the appeal of independent platforms where they can continue to service their clients, and creating a universe of advisors willing and able to move to independent platforms.

The changes in this and other protocols at wire-houses are driving Registered Representatives to move to independent platforms like Kingswood US, who can replicate most of the services whilst providing greater flexibility and independence. Mergers & acquisitions in the independent channels continued at a record pace due to ever-increasing regulatory costs, competitive pressures and economies of scale.

Firms continue to look for ways to transition brokerage-based business to fee-based advisory business (charging a fee based upon assets under management) as means of generating higher levels of recurring revenue and accessing greater valuation multiples than that placed on transaction-based commissions.

**Our Core Propositions**

Our FINRA-supervised IBD platforms buy and sell securities on behalf of clients on a commission basis, executing trades and custody of assets. We offer a fast, smooth service with access to many investment products and sectors including equities, fixed income, alternatives, and mutual funds. We also offer insurance products and related services. Through our SEC-registered RIAs, we provide ongoing wealth, estate, philanthropic, tax and succession planning services. We generate predictable and recurring revenue streams from advice and management of our client assets through these programs.

Our strategy for growth can be broken down into four key pillars:

1. **Revenue growth**
    a. Enhanced advisor recruitment efforts supported by the continued build-out of our in-house recruitment team and relationships with third party recruiters.
    b. Expansion of product offering for advisors with a particular focus on alternative investments, which can deliver yield and diversification benefits to investors.
    c. Continued build-out of advisory services and the transition existing commission-based assets to fee-based assets.

2. **Margin Expansion**
    a. Recognise synergies across broker-dealers to drive down costs.
    b. Expand upon shared services to enhance efficiency and provide more product offerings to advisers.
    c. Transition away from low margin investment banking and capital markets revenue towards higher margin commission and fee-based revenue streams.
3. **Lift-outs & Acquisitions**
    a. Expand advisor network via pipeline of potential lift-outs.
    b. Continue to add scale through vertical and horizontal consolidation, with a particular focus on the IBD and RIA channels where valuation multiples are more attractive and where justification for consolidation is more pressing.
4. **Technology**
    a. Continue to build upon tech stack through modernisation and digitisation.
    b. Drive scale through technology products.

**Key performance indicators**

| **$000's** (Unless otherwise stated) | **2021** | **2020** | **Var. $** | **Var. %** |
|---|---|---|---|---|
| Total Revenue | **175,545** | 35,318 | 140,227 | 397% |
| Gross Profit | **13,347** | 6,878 | 6,469 | 94% |
| Operating Profit | **7,035** | 2,232 | 4,803 | 215% |
| AUM/A ($m) | **2,545** | 2,071 | 474 | 23% |
| # of Authorised Representatives | **211** | 174 | 37 | 21% |

***A full year operating performance is presented for 2020 to provide a like-for-like comparison***

**Responsible Business Practices**

In the Autumn of 2021, Kingswood US announced a partnership with A Friend's House, a non-profit organization based in Stockbridge, Georgia that serves as both a shelter and home to youth in crisis in the Atlanta area. A Friend's House works with the Department of Family and Children Services to create a permanency plan for each child, which may include reunification with family or continued foster care services. Kingswood US is proud to raise money for improvements to their facility, including new washing machines, a lounge area and an outdoor courtyard, hosted celebratory events to lift the children's spirits and provided mentorships for residents seeking them.

**Outlook**

We remain optimistic about growth in 2022 despite recent turmoil in the US markets and rising interest rates because we believe it will be driven by a number of factors, including the recruitment of independent financial advisors dislocated and frustrated with the challenges they face either in the large wire-houses, or the rising costs of managing a small, sub-scale firm. We aim to acquire such small to medium size IBD and RIA firms and support them in driving sales growth by offering a superior wealth management platform and supporting practice. We will take away the management and regulatory burden and free the advisers to focus on growing their client base.

**Mike Nessim**

**Kingswood US Chief Executive Officer**

**June 2022**

## GROUP CHIEF FINANCIAL OFFICER

**Introduction**

Despite the continued uncertainty resulting from periods of lockdown and economic volatility, the Kingswood Group delivered record levels of Revenue and Operating Profit in 2021. We have seen material improvements in financial performance across our operating segments, Investment Management, Wealth Planning and Kingswood US, which has been supported by strong asset inflows, both organically and through acquisitions.

Recurring revenues as a percentage of total revenue increased during the year and operating profit margins improved across both Investment Management and Wealth Planning. We are now seeing the benefits of our buy, build and grow strategy following the acquisitions of Sterling Trust and Regency Investment Services in 2020 and have since completed a further 9 acquisitions in the UK which will continue the growth trajectory into 2022 and beyond. The US business exceeded all expectations in 2021, delivering significant amounts of revenue and operating profit for the Group as a whole.

We continued to maintain cost discipline in 2021 as operating expenditure was broadly flat year over year, excluding the impact of acquisitions. Our Balance Sheet remains well capitalised, with strong support from Pollen Street Capital. We continue to maintain an effective discipline in how we think about the businesses we acquire, ensuring that the multiples we pay are within our risk appetite and funding profile.

The UK business is a well-diversified proposition with an effective business model, underpinned by organic growth in assets that generate recurring revenues in excess of 85% and a predictable cost base. Our acquisitions complement this and provide the opportunity to deliver both revenue and cost synergies. Wealth Planning provides holistic financial advice to clients, generating both initial and ongoing fees. Our tailored Investment Management offering across a Managed Portfolio Service (MPS) and Personal Portfolio Service (PPS) includes an open market advisory and discretionary portfolio service to individuals and more than 100 IFA firms. The acquisition of IBOSS at the end of 2021 will drive increased flows into Kingswood and further scale the open market opportunity. Our Fixed Income business, included within Investment Management, is a leading provider of liquidity and treasury services to local councils and universities that continues to generate growth in AUM.

Kingswood US operates across three core divisions; Investment Banking, RIA and IBD. Investment Banking serves mid-market corporate clients and helped 100 public and private clients raise $9bn of capital in 2021. The IBD business offers our clients investment opportunities across Alternatives, Mutual Funds and Equities and our RIA business provides holistic financial advice to our clients, with similar characteristics to our Wealth Management business in the UK.

In our June 2021, “Positioned for Growth” investor presentation Kingswood outlined its ambition to deliver £20m of Operating Profit over the medium-term. Whilst we still have a way to go to get there, our 2021 financial results and trajectory demonstrate that the business has a strong base and the right credentials to deliver.

**Financial Performance**

The Group’s financial performance for the year was strong. AUM/A of £6.8bn was 15% higher than 2020, 10% driven from organic growth and 5% through acquisitions. Revenue was £149.7m, a 488% increase year over year, reflecting growth in the US and the impact of 2020 in-year acquisitions in the UK. Operating Profit increased by £5.5m, or 634%, to £6.3m in the year.

The UK business benefited from a full 12 months of trading following the acquisitions of Sterling Trust and Regency Investment Services, being consolidated into the Group’s financial results for 6 months and 2 months respectively in 2020, and the acquisitions of Admiral, Money Matters and Smythe and Walters in 2021. In the US, having acquired 50.1% of Manhattan Harbor Capital in November 2020, now rebranded Kingswood US, the US was consolidated into Group results for 12 months in 2021 compared to 2 months in 2020.

Operating expenditure of £22.9m was £6.7m higher than the prior year largely driven by acquisitions, with the existing cost base remaining broadly flat compared to the prior year reflecting careful cost management.

Profit before Tax for the period to 31 December 2021 was a Loss of £14.5m reflecting £7.0m of acquisition related deferred consideration expense, £2.4m amortisation and depreciation, other losses of £3.0m, £4.9m finance costs and £3.4m business re-positioning and transaction costs.

The Group’s balance sheet reflects the growth of the business. The Group had £42.9m of cash as at December 2021, an increase of £39.0m compared to 31 December 2020. This is largely driven by further investment from our private equity partners at Pollen Street Capital, £27.9m net of acquisition related payments, and £2.7m of cash acquired from acquisitions. Net cashflow generated from operating activities of £1.7m was largely driven by the timing of the settlement of Investment Banking commission payments, partially offset by £8.5m of acquisition related contingent remuneration payments. Net Assets were £76.9m, an increase of £26.7m compared to the prior year.

## GROUP CHIEF FINANCIAL OFFICER

### Segmental Analysis

The table below provides a breakdown of the annual financial performance of the operating segments within the Kingswood Group: Investment Management, Wealth Planning and Kingswood US. The Group separately reports on Central Costs incurred to support the running of the Operating Segments and the PLC.

| | Investment Management | Wealth Planning | US | Central Costs | Group Total |
|---|---|---|---|---|---|
| **2021 (£k)** | | | | | |
| Revenue | 4,652 | 17,214 | 127,827 | 23 | 149,716 |
| Cost of Sales | (1,476) | (913) | (118,108) | 0 | (120,497) |
| Gross Profit | 3,176 | 16,301 | 9,719 | 23 | 29,219 |
| Operating Costs | (2,811) | (10,522) | (4,596) | (4,963) | (22,892) |
| **Operating Profit** | 365 | 5,779 | 5,123 | (4,940) | 6,327 |
| Recurring Revenue % | 81.1% | 88.1% | 7.4% | n/a | 19.0% |
| Operating Profit Margin % | 7.8% | 33.6% | 4.0% | n/a | 4.2% |
| AUM/A (£m)* | 1,639 | 3,244 | 1,889 | n/a | 6,772 |
| # Advisers / Authorised Representatives* | 10 | 60 | 211 | n/a | 281 |
| **2020 (£k)** | | | | | |
| Revenue | 4,240 | 12,915 | 8,322 | - | 25,477 |
| Cost of Sales | (1,158) | (643) | (6,670) | - | (8,471) |
| Gross Profit | 3,082 | 12,272 | 1,652 | - | 17,006 |
| Operating Costs & Other** | (3,189) | (7,892) | (1,109) | (3,954) | (16,144) |
| **Operating Profit** | (107) | 4,380 | 543 | (3,954) | 862 |
| Recurring Revenue % | 74.7% | 87.7% | 12.3% | n/a | 60.9% |
| Operating Profit Margin % | -2.5% | 33.9% | 6.5% | n/a | 3.4% |
| AUM/A (£m) | 1,419 | 2,959 | 1,534 | n/a | 5,912 |
| # Advisers / Authorised Representatives | 11 | 53 | 174 | n/a | 238 |

**AUM/A excludes the impact of Metnor Holdings Limited, which was acquired on 31 December 2021 with AUM of £1.5bn. Including Metnor 2021 AUM/A increases to £8.3bn*

*** 2021 'Other' includes £56k share of post-tax profits of equity accounted associates*

### Investment Management

Revenue of £4.7m was £412k, or 9.7%, higher compared to 2020 largely reflecting a £220m increase in AUM due to the migration of assets into the Kingswood MPS product and further growth within the Fixed Income business, with recurring revenue increasing to 81.1% (2020: 74.7%). Operating expenditure of £2.8m decreased by 11.9% reflecting actions taken to improve the profitability of the business, and Operating Profit was £365k compared to an Operating Loss of £(107)k in the prior year.

### Wealth Planning

Revenue of £17.2m was £4.3m, or 33.3%, higher year over year as in-year acquisitions contributed to a £285m increase in AUA and we benefitted from a full 12 months trading following the 2020 acquisitions of Sterling and Regency. Recurring revenue increased to 88.1% (2020: 87.7%) and Operating Profit of £5.8m was 31.9% higher compared to prior year.

### US

Revenue of £127.8m increased by £119.5m compared to 2020 and whilst the Group benefited from consolidating the US for a full 12 months, the segment performed exceptionally well. Investment Banking revenues were £103.9m in the period and benefitted from strong capital market activity – the business completed over 100 transactions with a total of over $9.0bn capital raised for clients. The RIA and IBD business delivered revenues of £23.9m, reporting healthy double-digit growth year over year on a like for like basis. AUM of £1.9bn at December 2021 was 23.1% higher than 2020, supported by an increase in the number of advisor representatives from 174 to 211.

## GROUP CHIEF FINANCIAL OFFICER

Due to Investment Banking revenues being transactional in nature, recurring revenues in the US (2021: 7.4%, 2020: 12.3%) are lower than the UK which result in overall Group recurring revenues being 19.0% in 2021.

Group Central Costs were £4.9m in 2021 compared to £4.0m in 2020. The Group continued to apply prudency to the management of its cost base in 2021, however, costs increased year over year as a result of the strengthening of the Executive Team and central functions to support a larger business and continuing M&A activity, as well as higher audit fees.

**Reconciliation between Operating Profits and Statutory Profits**

Operating Profit is considered by the Board to be an accurate reflection of the Group's performance when compared to the statutory results, as this excludes income and expense categories which are deemed of a non-recurring nature or a non-cash operating item. A reconciliation between operating and statutory profit before tax for the year ended 31 December 2021 with comparatives is shown in the table below:

| £k | 2021 | 2020 |
|---|---|---|
| **Operating Profit** | **6,327** | **862** |
| Business Re-positioning Costs | (1,564) | (1,801) |
| Transaction Costs | (1,836) | (1,855) |
| Finance Costs | (4,927) | (554) |
| Amortisation and Depreciation | (2,399) | (1,822) |
| Remuneration Charge (Deferred Consideration) | (7,009) | (7,254) |
| Other Gains / (Losses) | (3,056) | 1,744 |
| **Profit / (Loss) before Tax** | **(14,464)** | **(10,680)** |

- 2021 £1.6m Business Re-positioning costs comprise of restructuring costs related to organisational change to Central Function departments and Investment Management. £1.8m Transaction costs are acquisition related and include legal fees, due diligence, broker fees.
- Finance costs reflect a £3.9m cost related to dividends that accrue on the Group's preference shares in issue. In 2021, it was agreed that dividends earned on preference shares would be settled through the issue of Kingswood shares rather than cash which has led to the extinguishing of the £7.3m liability that was reported on the Balance Sheet as at 31 December 2020. As a result, and per accounting standard IFRS 9, £3.4m has been re-classified as equity and £3.9m charged to finance costs. The remaining £1.0m of finance costs charged to the profit and loss in 2021 comprise of costs related to the cost of deferred consideration.
- Amortisation and Depreciation charges represent £1.5m from the amortisation of intangible assets and £0.9m depreciation of Right of Use Assets, property, and IT/office equipment.
- £10.1m Remuneration Charges and Other Gains / (Losses) reflect deferred consideration payments resulting from acquisitions completed in 2019 and 2020. Under the treatment of deferred consideration per IFRS 3, in circumstances where the payment of deferred consideration is contingent on the seller remaining within the employment of the Group during the deferred period, the contingent portion of deferred consideration is treated as remuneration and accounted for as a charge against profits.

**Balance Sheet Strength**

As at 31 December 2021, Kingswood has issued 77.4m preference shares to Pollen Street Capital in return for £77.4m of capital to provide funding for acquisitions. £25.7m of this funding is included within cash at the balance sheet date. The preference shares are convertible into ordinary shares at 16.5p in December 2023, or earlier under certain conditions. The Pollen Street Capital board members bring significant experience and expertise to the execution of our strategy.

Non-current assets of £83.9m were £32.2m higher than the prior year reflecting higher intangible assets and goodwill following the acquisitions completed in 2021. Current assets increased by £20.6m to £48.8m in the year as a £39.0m increase in cash was partially offset by a £18.5m reduction in trade and other receivables, mainly reflecting the £20m of cash paid across to Kingwood during Q1 2021 in relation to the preference shares issued to Pollen Street Capital in Q4 2020.

Current liabilities increased by £20.0m in the year to £33.8m largely reflecting £9.5m of outstanding commissions payable to US Investment Bankers at 2021 year-end, £1.9m outstanding distributions to partners in the US and a £6.9m increase in deferred consideration payments due in 2022. Non-current liabilities were £22.0m as at 31 December 2021 (2020: £15.9m). The increase of £6.1m year over year largely reflects an increase of £11.3m in deferred consideration payments due after 2023 and a £2.7m increase in deferred tax liabilities partly offset by the £7.3m re-classification of preference share dividends from a liability to equity (£3.4m re-classified to equity and £3.9m expensed through the profit and loss).

## GROUP CHIEF FINANCIAL OFFICER

**Acquisitions**

We are pleased with the progress made in expanding Kingswood in the UK and US, with five regional businesses acquired in the UK between 2019 and 2021 and a further 9 acquisitions between August 2021 and May 2022. In addition, during this period, Kingswood acquired 50.1% of Manhattan Harbor Capital which has now been re-branded Kingswood US. We have strong purchase transaction experience across the senior management and have developed a strong internal capability to complete transactions quickly and efficiently, with a standardised documentation and process to simplify due diligence, execution, and subsequent integration.

Our selection process is rigorous, and we look at many factors including cultural fit, client focus and dedication, key personnel retention to preserve and grow those client relationships. Our model is to free up adviser time to focus on their clients, and provide a centralised, efficient support infrastructure. We are committed to driving organic growth within every acquired business and bring a 'whole of wallet' approach where Kingswood can bring considerable additional products and services to the table for clients, generating revenue growth from the existing client base.

Financially, we assess businesses on strict performance parameters, with a focus not just on revenue and profit measures but also AUM/A and Return on Investment (ROI). Post-acquisition, we create monthly performance reports against these metrics and adjust strategy and implementation accordingly. The table below confirms the price paid for the 9 acquisitions acquired between August 2021 and May 2022.

| Date | Acquisition | AUM/A £m | No. of Advisers |
|---|---|---|---|
| Aug-21 | Admiral Wealth Management | 100 | 2 |
| Nov-21 | Money Matters (North East) Ltd | 115 | 3 |
| Dec-21 | Metnor Holdings (IBOSS) Ltd | 1,520 | 9 |
| Feb-22 | Allotts Financial Services Ltd | 140 | 3 |
| Feb-22 | Joseph R Lamb Independent Financial Advisers Ltd | 393 | 7 |
| Feb-22 | Aim Independent Ltd | 217 | 5 |
| | Other | 135 | 3 |
| | **Total** | **2,620** | **32** |

**Finncap**

In October 2021 Kingswood announced the appointment of finnCap Ltd as its Nominated Adviser and Broker.

**Outlook**

2021's financial performance has demonstrated the fundamental strengths of the Kingswood business model and we continue to be well positioned for further growth in 2022. As outlined in the Chairman's Statement, the terrible events unfolding in Ukraine, the re-emergence of significant geopolitical risk and inflationary pressure has created a great deal of uncertainty in the outlook for the year and as a result we have seen negative market movements impact AUM/A and revenues in the first half of 2022. Despite this, at time of writing, AUM/A is now c.£9.0bn and we are seeing organic revenue growth in the business which is complimented by inorganic growth from recent acquisitions.

We continue to focus on integration, organic growth and to deliver against our acquisition strategy. With a strong pipeline of activity, including 8 potential acquisitions in exclusive due diligence, our near-term target is to build our UK AUM/A in excess of £10bn in the UK and £12.5bn globally.

Our medium-term target remains £20m Operating Profit and we believe that with our current acquisition pipeline and organic growth trajectory this is achievable. This medium-term target includes delivering Operating Profit margins for the UK of c.30% and ongoing margin improvement in the US. With the expected reduction in Restructuring, Remuneration and Finance Charges, Kingswood forecasts to make a Profit before Tax in 2022. Kingswood's financial strategy is to maintain a robust and disciplined balance sheet to ensure no deferred liability remains uncovered from a funding perspective, and we will continue to have a disciplined approach to expense management.

**Jon Millam**

**Group Chief Financial Officer**

**June 2022**

## PRINCIPAL RISKS AND UNCERTAINTIES

**Principal Risks and Uncertainties**

The Board is ultimately responsible for the management of risk and regularly considers the most significant and potential risks likely to impact delivery of the Group's strategy. The Board also has responsibility for implementing and maintaining a Group-wide system of internal controls and a robust risk management framework, and to regularly review the efficiency and effectiveness of those systems and frameworks.

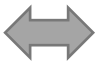
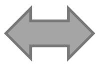
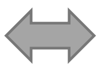
Our risk assessment process considers both the likelihood and impact of risk events which could prevent the implementation of Group strategy and have a material impact on the performance of the Group. These risks can arise from internal or external events. The principal risks identified as having a potential material impact on the Kingswood Group are summarised below together with our mitigation strategies. This list is by no means exhaustive and can and will change over time.

| Risk | Description | Mitigation | Outlook |
|---|---|---|---|
| **Industry Risks** | | | |
| **Regulatory Risk** | There remains a significant amount of regulatory change to be implemented and/or managed. Failure to correctly identify, interpret or implement regulatory change may result in an adverse impact for Kingswood | • Professionally staffed compliance department monitoring, interpreting and with business leaders implementing the latest FCA developments.<br>• A Risk & Compliance Committee takes place on a monthly basis which is attended by all Executive Committee members.<br>• Board level Audit & Risk Committee providers oversight and challenge.<br>• A suite of mandatory compliance training modules is in place for all staff |  |
| **Market Risk** | Emergence from the COVID-19 global pandemic, macroeconomic pressures such as inflation and ecopolitical tensions are impacting economic and financial markets and volatility. This may adversely affect advice and other services provided in addition to trading volumes and the value of client assets under management from which we derive fee revenue | • Broad range of client solutions offered to clients enabling them to protect assets through diversification, and continuing to generate revenues<br>• Our Investment Committee governance structure closely monitors and manages market movements<br>• Many clients are invested in tax advantaged investment products with a long-term focus and are unlikely to withdraw funds in short term and jeopardise tax status |  |

## PRINCIPAL RISKS AND UNCERTAINTIES

| Risk | Description | Mitigation | Outlook |
|---|---|---|---|
| **<u>Operational Risks</u>** | | | |
| **Operational Resilience** | Risk of a negative impact on clients, firm profitability, staff, and other stakeholders because of operational disruption (e.g. due to internal or external factors) | • Kingswood has benefited from robust cloud based operating systems allowing staff to seamlessly transition to remote working<br>• Core systems are cloud based allowing for ease of remote access<br>• The Company continues to invest in improved IT connectivity and leading-edge systems to improve resilience and ensure continued service to clients | |
| **Integration Risk** | Risk that we fail to deliver high-quality service to advisers and clients as acquisitions are integrated | • Senior management oversight and governance mechanisms in place<br>• Project management team in place to oversee integration<br>• Clear and transparent client communication ahead of any material changes<br>• Continue to embed and enhance the processes required to successfully integrate acquisitions into the Group's procedures and corporate governance, including the acquisition of 50.1% of Kingswood US during 2020. | |
| **Suitability of Advice** | There is a risk of providing unsuitable advice or a failure to confirm ongoing suitability | • We maintain a skilled wealth planning workforce, trained to the highest industry standards<br>• A professional compliance team provides training, oversight, and ongoing monitoring to ensure that high standards are maintained<br>• Additional assurance is provided through specialist third party review<br>• Senior management provide direct oversight to ensure ongoing suitability of advice to clients | |
| **Reliance on Third Party Service Providers** | Kingswood partners with best-in-class experts for certain key services- a financial or operational failure of our strategic partners could result in an adverse impact on our ability to service clients | • A third-party management framework is in place and overseen by the Group COO and Group CRO. This framework ensures extensive financial and operational due diligence is undertaken at the outset of 3rd party relationships and is continually monitored on an ongoing basis<br>• Contracts are in place with clear Service Level Agreements (SLAs) for all key suppliers | |
| **Business Conduct** | The risk of poor business conduct resulting in client outcomes that do not meet their needs and circumstances | • Training & Competence programme in place for all client facing staff<br>• Kingswood culture is focused on client outcomes<br>• Professionally staffed compliance department providing additional oversight | |

## PRINCIPAL RISKS AND UNCERTAINTIES

| Risk | Description | Mitigation | Outlook |
|---|---|---|---|
| **<u>Operational Risks (continued)</u>** | | | |
| **Data Protection & Cyber Security** | External attacks on information technology systems could lead to loss of client data and breaches of data protection laws likely, resulting in regulatory fines, reputational damage, and financial remediation claims from clients | • Continual focus on data security, including penetration testing and 'phishing' exercises<br>• IT security & awareness training regularly conducted for all staff<br>• Senior management oversight of IT capability and resilience |  |
| **People Risk** | Increasing workloads, key person risk or inability to adequately staff key roles could result in adverse business impact | • Competitive pay and benefits<br>• HR policies and procedures overseen by HR director<br>• Several HR initiatives aimed at improving employing wellbeing<br>• Training and development programme in place to help staff advance their careers<br>• Investment in learning and development programmes for all staff including training on culture and conduct |  |
| **Financial Crime** | Risk of Fraud, Money Laundering, Bribery & Corruption, Sanctions, Terrorism Financing, Tax Evasion, Market Abuse, Insider Dealing | • The Money Laundering Reporting Officer (MLRO) oversees the implementation of financial crime prevention policies and procedures<br>• An MLRO report is reviewed annually by the Risk & Compliance Committee. The number of high-risk clients is low<br>• An electronic ID verification system is in place for all new clients<br>• Awareness of Financial Crime policies & procedures across the Group is maintained through regular training |  |
| **Investment Restrictions** | There is a risk of breaching regulatory, product or client driven investment restrictions. This could result in the need to compensate clients and/or lead to regulatory censure | • Mandate restrictions are well understood by experienced investment management team<br>• Pre & Post trade alerts in place<br>• Investment Committee structure monitors ongoing adherence to portfolio strategies<br>• Independent compliance monitoring in place |  |

# CORPORATE SOCIAL RESPONSIBILITY

**Introduction**

At Kingswood, we have a strong Environmental, Social and Governance (ESG) focus and prioritise being a responsible corporate citizen. We are committed to doing right by our stakeholders - our clients, shareholders, people, suppliers and chosen charity partners.

ESG and CSR is a Board level agenda item, and we continue to progress our annual group level audit of our ESG practices and our carbon footprint, where we are able to build further action plans and measure progress to our ESG/ CSR responsibilities. As an acquisitive and growing company, we use measurement practices on our new acquisitions to ensure we have a clear benchmark upon integration into the Group.

During the year we remained focused on becoming a more responsible corporate citizen in the communities in which we operate, taking the following actions across our different stakeholder groups:

- Enhanced our commitment to developing our people through dedicated Learning and Development programmes that are available for all colleagues at the varying stages of their careers.
- In January 2021 launched Kingswood Academy, providing a structured programme to nurture and build the talent within our adviser population.
- Initiated a work-life integration framework that promotes flexible working across the business to make sure we support our people as much as we can and developed a strong benefits package for all of our colleagues.
- Continued investment in adviser frameworks and technology across the organisation to better support the organic and inorganic growth goals, enabling us to surpass our client's expectations.
- Created a robust client feedback mechanism to ensure that the customer remains at the centre of our thinking, decision making and future strategy. We regularly survey our clients and achieved a Net Promoter Score of +35 in December 2021.

We were proud to increase the female representation in our UK leadership team to over 40% during the year, however, our sector remains underserved in respect of female advisors and this is a key focus are for us as we build a business more representative of our society.

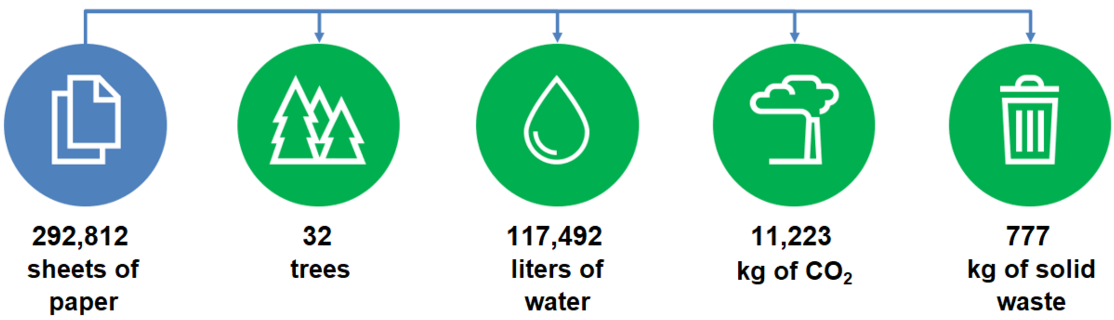
The business remains focussed on diversity and inclusion, actively supporting a number of initiatives in 2021 including '10,000 Black Interns', an organisation centred around transforming the horizons and prospects of young black people in the community.

**The environment**

We are consciously focussing on where we can make the largest positive impacts on the environment. We have a fully flexible working policy in place allowing a mix of home, remote and office working, which has created a positive impact on the reduction of travel, linking to our carbon footprint.

Through technology we have also bolstered our environmental principles through enhanced use of video conferencing and collaboration communication tools for colleagues to enable true cross geography collaboration, further reducing our travel. Our new client portal, Kingswood Go, enables clients to view their portfolios online and to hold documentation digitally, sign documents through DocuSign (to replace a physical wet signature) and securely communicate to our adviser teams. This is in turn is reducing reliance on our physical paper resources.

We have recycling facilities in all offices and are continuing to push forward with our responsible business agenda as well as reducing further our carbon footprint. We are pleased to have further improved our environment impact, saving over 293k sheets of paper, 32 trees, 117k litres of water, 11.2 tonnes of $CO_2$ and 777kg waste between July 2019 and May 2022.



# CORPORATE SOCIAL RESPONSIBILITY

### ESG

Within our client proposition we offer clients a suite of ESG portfolios which consider environmental social and governance issues.

Our objective is not only to produce financial returns, but also to generate a positive impact on the environment and society. We believe strong corporate governance is of key importance to meeting these objectives.

We integrate the United Nations Sustainable Development Goals (UN SDGs) into our process, using them as a framework to guide our idea generation. Whilst we may invest in a fund to target one environmental or societal theme/goal, what is common across each fund in our portfolios is an additional strict focus on governance. We have also begun to integrate ESG into our core portfolios with the environment being one of our core themes.

### Our suppliers

As a financial services company, we do not manufacture goods, nor do we have a complex supply chain. We believe in only engaging suppliers who align with our values including for anti-Modern Slavery and Human Trafficking.

### Charities and communities

We started a partnership with Matchable volunteering in 2021 where colleagues can choose where they can best match their skills and passions within the charity sector. We provide colleagues with 2 days per year additional leave to be able to do this.

Kingswood US partnered with A Friend's House serving both as a shelter and home to youth in crisis in the Atlanta area.

We are also increasingly looking at ways to enhance the levels of financial education amongst communities and demographics. We are regularly sharing financial education pieces through our social media channels and our colleagues take time to visit their communities to aid discussions on financial education. We will continue to do more of this on a structured basis through 2022.

### Workplace

We are committed to creating a workplace and culture that is welcoming and inclusive for everyone, taking steps to enhance this over 2021. Diversity and inclusion are a cornerstone of our philosophy and culture, and an employee-led Diversity and Inclusion Forum is in place to encourage creative ideas and action to further embed diversity and inclusion as a central tenet of our business corporate culture. We are proud to be an equal opportunity employer committed to recruiting and maintaining a diverse workforce irrespective of race, religion, age, disability, gender or sexual orientation or bias. We are also proud to be participating in the 10,000 black interns' scheme for the second year. Both our UK and US business strongly operate around core behavioural principles for colleagues ensuring there is a high level of integrity, transparency, respect and trust.

### Colleagues

We currently have 292 employees:

- Females – 137 (46.9%)
- Males – 155 (53.1%)

Ages:

- Under 30 – 59 (20.2%)
- 30-50 – 131 (44.9%)
- Over 50 – 102 (34.9%)

# GOVERNANCE

# BOARD OF DIRECTORS

The Directors of Kingswood Holdings Limited recognise the importance of sound corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the QCA Code). The QCA Code takes key elements of good governance and applies them in a manner that is workable for the different needs of growing companies and was developed by the Quoted Companies Alliance as an alternative corporate governance code applicable to AIM companies.

Jonathan Freeman, in his capacity as an independent Non-Executive Director, has assumed responsibility for ensuring that the Group has appropriate corporate governance standards in place and that these requirements are followed and applied within the Group as a whole. The QCA Code corporate governance arrangements that the Board has adopted are designed to ensure that the Group delivers long term value to its shareholders and that shareholders have the opportunity to express their views and expectations for the Group in a manner that encourages open dialogue with the Kingswood Holdings Limited Board.

The Directors have structured the relationship between the Board of the Group holding company, Kingswood Holdings Limited and the individual 'Subsidiary Boards' which represent KW Investment Management Limited and KW Wealth Planning Limited, the operational companies regulated by the FCA, and KW Wealth Group Limited which is the holding company for the Group's US investments.

Kingswood Holdings Limited's Board has the responsibility to set strategy for the Group and to monitor the performance of its operating subsidiaries. The Subsidiary Boards have the responsibility to oversee, govern and direct the operations of the subsidiary entities in line with relevant rules and regulations and overall Group strategy.

The respective Boards have established various committees, each of which has written terms of reference. The principal committees are the Audit and Risk Committee and the Nomination and Remuneration Committee.

The principal methods of communicating the application of the QCA Code are this Annual Report and the Group's website which sets out the 10 QCA Code principles and how Kingswood Holdings Limited complies with those principles and the related disclosures: www.kingswood-group.com/corporate-governance. The Group applies all the QCA principles in full.

**Corporate governance structure**

The role of Non-Executive Chairman is held by David Hudd. The Board considers that the Non-Executive Directors provide a strong and consistent independence to the Executive members. None of the Non-Executive Directors are involved in the day-to-day management of the Group and are free from any business or other relationship which could materially interfere with their judgement. Biographies of the Non-Executive Directors are contained on pages 26 to 27.

During the year ended 31 December 2021, the Non-Executive Chairman was responsible for leadership of the Board, creating conditions for the effectiveness of the Board and individual Directors and developing the Group's strategy. The Group Chief Executive Officer (CEO), UK CEO and US CEO were responsible for running the Group's business day to day and, subject to Board agreement, the implementation of strategy.

The minutes of scheduled meetings of the Board are taken by the Company Secretary. In addition to constituting records of decisions taken, the minutes reflect questions raised by Board members in relation to the Group's business and, in particular, issues arising from the reports included in the Board or Committee papers circulated prior to the relevant meeting. Unresolved issues (if any) are recorded in the minutes.

Corporate governance and the management of the Group's resources is achieved by regular review and discussion, through meetings and conference calls, monthly management accounts, presentations and external consultant reports and briefings.

**Independence of Board of Directors**

The Board considers that all Non-Executive Directors bring an independent judgement. The QCA code recommends that at least two independent Non-Executive Directors sit on the Board. At year-end, the Board had six members, with one Executive and five Non-Executive Directors. David Hudd and Jonathan Freeman are considered 'independent'. Jonathan Massing, Howard Garland and Lindsey McMurray are not considered independent due to the size of shareholding they are directly or indirectly associated with.

## BOARD OF DIRECTORS

During the year under review, the Board comprised:

- Jonathan Freeman (Non-Executive Director)
- Howard Garland (Non-Executive Director)
- David Hudd (Non-Executive Chairman, Legal Consultant)*
- Jonathan Massing (Deputy Non-Executive Chairman)
- Lindsey McMurray (Non-Executive Director)
- Robert Suss (Non-Executive Director)*
- Kenneth 'Buzz' West (Non-Executive Chairman)*
- Gary Wilder (Group Chief Executive Officer)**

*Robert Suss resigned from the board 28 February 2022 and Kenneth 'Buzz' West resigned as Non-Executive Chairman 26 July 2021. David Hudd became Chairman in July 2021.

**In April 2022, Gary Wilder stepped back into a Non-Executive director role and David Lawrence was appointed to the Board as Chief Executive Officer.

The Board has scheduled meetings on a quarterly basis. The Board formally met four times throughout the year. Meetings of the Board are held at the Group's offices in London or via conference call. In person meetings of the Subsidiary Boards take place at least quarterly.

The number of main Board meetings and committees held in 2021 and individual attendance was as follows:

| Director | Board | Audit Committee | Nomination & Remuneration Committee | Risk & Compliance Committee |
|---|---|---|---|---|
| Jonathan Freeman | 4/4 | 5/5 | 1/1 | 6/6 |
| Howard Garland | 4/4 | | | |
| David Hudd | 4/4 | 2/2 | 1/1 | |
| Jonathan Massing | 4/4 | 3/3 | | |
| Lindsey McMurray | 3/4 | | | |
| Robert Suss | 2/4 | | | |
| Buzz West | 2/4 | 3/3 | | |
| Gary Wilder | 4/4 | | | |

The Board has approved a formal schedule of matters reserved for consideration and decision. These are divided into several key areas, including but not limited to:

- Constitution of the Board, including its various Committees, and succession planning (as recommended by the Nomination and Remuneration Committee).
- Group strategy and transactions.
- Financial reporting (including approval of interim and final financial statements).
- Group finance, banking, and capital structure arrangements.
- Regulatory matters (including the issue of shares, communication, and announcements to the market).
- Group compliance risk management and control processes and decisions (as recommended by the Audit and Risk Committee).
- Approval of remuneration policies (as recommended by the Nomination and Remuneration Committee).
- Approval of Group policies in respect of, inter alia, Health and Safety, Corporate Responsibility, and the environment.
- Human Resource issues or concerns.

Matters requiring Board and Committee approval are generally the subject of a written proposal by the Executive Directors to the Board (or Committee) and circulated prior to the relevant meeting. All Directors receive appropriate information on the Group comprising a financial report and other relevant paperwork from each of the responsible executives and other members of senior management before each scheduled Board meeting. The Executive Directors and other invited members of senior management present reports to each meeting on key issues including strategy, risk & compliance, finance, operations, people, and legal matters.

## BOARD OF DIRECTORS

The Board recognises the importance of on-going professional development and education, particularly in relation to new laws and regulations potentially impacting the business of the Group. Such training may be obtained by Directors individually or through the Group. Directors also maintain knowledge and skills through their day-to-day roles and may additionally obtain independent professional advice at the Group's expense. Third party Directors' and Officers' liability insurance at a level considered appropriate for the size and nature of the Group's business is maintained.

The terms and conditions of each Director's appointment are available for inspection at the Group's head office in London during normal business hours. The letters of appointment of each Non-Executive Director specifies the anticipated level of time and commitment including, where relevant, additional responsibilities in respect of the Audit and Risk, and the Nomination and Remuneration Committees. Details of other material commitments of the Non-Executive Directors are disclosed to the Board and maintained in a register by the Company Secretary.

**Subsidiary boards**

Each of the Group's UK operating subsidiary companies has a separate Board which meets at least quarterly to discuss key matters pertaining to the subsidiaries' activities. The UK Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk officer and Howard Garland (Non-Executive Director) sit on each of the operating subsidiary boards, with Howard Garland chairing them.

The Group's US interests are ultimately held through its subsidiary company KW Wealth Group Limited and to date US investments have been reviewed by the Group Board. In addition, key KHL Board members sit on the US division's advisory board.

**Board committees**

The Board has established committees including the Audit and Risk, and the Nomination and Remuneration and, each with separate terms of reference. These are available for viewing at Kingswood's London office.

**Audit and Risk committee**

The Audit Committee is chaired by Jonathan Freeman with David Hudd joining in January 2020 and Jonathan Massing in January 2021. The Audit and Risk Committee is responsible for providing formal, transparent arrangements to the application of suitable financial reporting and internal control principles having regard to good corporate governance. The committee is also responsible for monitoring the external audit function including the independence, objectivity, and cost-effectiveness of the Group's external auditor. The meeting is attended by the Chief Executive Officer, Chief Finance Officer and Chief Risk Officer.

The independence and effectiveness of the external auditor is reviewed annually. The possibility of undertaking an audit tender process is considered on a regular basis. The Audit Committee meets at least twice a year with the auditors to discuss their appointment, independence and objectivity, the issuance of the Interim and Annual Reports and any audit issues arising, internal control processes and any other appropriate matters. Fees in respect of audit services are set out in note 5 of the Notes to the Financial Statements. Fees for non-audit services paid to the auditors are not deemed to be of such significance as to impair independence and therefore the Audit Committee considers the objectivity and independence of the auditors safeguarded.

**Internal control**

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Audit Committee monitors and reviews the effectiveness of the system of internal control and reports to the Board when appropriate with recommendations. The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was concluded, given the current size and transparency of the operations of the Group, that an internal audit function was not required at this time. The main features of the internal control system are outlined below:

- A control environment exists through close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.
- The Board has a schedule of reserved matters expressly for its consideration and this includes approval of acquisitions and disposals, major capital projects, treasury and risk management and approval of business plans and budgets.

- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors and senior management and submitted to the Board for approval. Forecasts are regularly updated to reflect changes in the business including cash flow projections and are monitored by the Board. Actual results are monitored against budgets and variances reviewed by the Board.
- Financial risks are identified and evaluated for consideration by the Board and senior management; and
- Standard financial control procedures are operated throughout the Group to ensure assets are safeguarded and proper accounting records maintained.

**Nomination and Remuneration committee**

The Nomination and Remuneration Committee is responsible for the consideration of Board appointments, the review of Board structure, its size and composition and the identification of future Board requirements by reference to the balance of skills, knowledge and experience present on the Board and the scale and direction of the Group. It is chaired by Jonathan Freeman as an independent Non-Executive Director and David Hudd, Group Chairman is also a member.

The Committee is also responsible for establishing a formal and transparent procedure for executive remuneration policy and to determine the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Group Chief Executive Officer, other Executive Directors, the Company Secretary, and such other members of the executive management of the Group as it is designated to consider.

It is also responsible for recommending to the Board the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. No Director is involved in a decision regarding their personal remuneration. The Board considers the current composition of the Nomination and Remuneration Committee appropriate given the size of the Group. There was one Nomination and Remuneration Committee meetings held during the financial year ended 31 December 2021.

**Remuneration policy**

The Board retains responsibility for overall remuneration policy. Executive remuneration packages are designed to attract and retain executives with the necessary skill and experience to hold a senior management role in the Group. The Committee recommends to the Board the remuneration packages by reference to individual performance and uses the knowledge and experience of the Committee members, published surveys relating to AIM companies, the financial services industry and market changes generally. The Committee has responsibility for recommending any long-term incentive schemes.

The Board determines if Executive Directors are permitted to serve in roles with other companies. Such permission would be granted on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group. Earnings from such roles would be required to be disclosed to the Committee Chairman.

There are four main elements of the remuneration package for Executive Directors and executive staff:

1. Basic salaries and benefits in kind: Basic salaries are recommended to the Board by the Committee, based on the performance of the individual and the compensation for similar positions in comparable companies. Benefits in kind including death in service cover are available to all staff and Executive Directors. Benefits in kind are non-pensionable.
2. Share options: The Company operates approved share option schemes for key personnel to incentivise performance through equity participation. Exercise of share options under the schemes is subject to defined exercise periods and compliance with the AIM Rules. The schemes are overseen by the Nomination and Remuneration Committee which recommends to the Board all grants of share options based on the Committee’s assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate. The AIM rules refer to the requirement for performance related elements of remuneration to form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of shareholders. The Nomination and Remuneration Committee currently considers that the best alignment of these interests is through the continued use of performance incentives through the award of share options in the Company’s existing LTIP awards scheme.
3. Bonus scheme: The Group has a discretionary bonus scheme for Executive Directors and staff which is specific to each individual and their role within the Group.
4. Pension contributions: The Group pays a defined contribution to the pension schemes of Executive Directors and staff. The individual pension schemes are private, and assets are held separately from those of the Group.

No Director has a service contract for longer than 12 months.

# BOARD OF DIRECTORS

### Policy on non-executive remuneration

All Non-Executive Directors, except Pollen Street Capital's representatives to the Board, receive a fee for their services as a Director which is approved by the Board, mindful of their time commitment and responsibilities and current market rates for comparable organisations and roles. Non-Executive Directors are also reimbursed for travelling and other incidental expenses incurred on Group business.

The Board encourages the ownership of shares in the Company by Executive and Non-Executive Directors and in normal circumstances does not allow Directors to undertake dealings of a short-term nature.

Ownership of the Company's shares by Non-Executive Directors is considered a positive alignment of interest with shareholders. The Board periodically reviews the shareholdings of Non-Executive Directors and seeks guidance from its advisors if, at any time, it is concerned that the shareholding of any Non-Executive Director may, or could appear to, conflict with their duties as an independent Non-Executive Director of the Company. Directors' remuneration, including Directors' interests in share options over the Company's share capital, are set out in the Directors' Report (page 29) and the Directors' Remuneration Report (page 31).

### Re-election

Under the Company's articles of association, all Directors are subject to election by shareholders at the AGM immediately following appointment. All Directors formally retire by rotation at intervals of no more than three years, requiring re-election by shareholders.

### Performance evaluation

The composition of the Board is regularly reviewed to ensure it maintains the necessary depth and breadth of skills to sustain the delivery of the Group's long-term strategy. The Board is committed to ensuring it maintains the necessary combination of skill, experience, and gender balance.

Evaluations of the Board, the Committees and individual Directors are undertaken on an annual basis in the form of peer appraisal, questionnaires, and discussions to determine effectiveness and performance. This includes a review of success in achieving annual objectives set by the Board. The Board may utilise the results of the annual evaluation process to identify training and development needs and succession planning.

### Relationship with shareholders and dialogue with institutional shareholders

The Chairman, the Group Chief Executive Officer and the Group Chief Financial Officer maintain dialogue with key shareholders in relation to strategy and corporate governance issues.

All shareholders receive the Annual Report incorporating audited financial statements and are welcome to attend the Company's AGM. The Directors attend the meeting and are available to answer questions both formally during the meeting and informally afterwards.

The collection and analysis of shareholder proxy votes is handled independently by the Group's registrars. The Chairman announces the results of the proxy votes lodged after shareholders have voted on a show of hands. All Committee chairmen are, where possible, available at the AGM. The Non-Executive Directors are available to shareholders and may be contacted through the Group Chief Executive Officer's office.

The Group's website at www.kingswood-group.com is an important source of information for investors, including information required in compliance with AIM Rule 26, and is updated regularly.

### Corporate culture and social responsibility

The Board seeks to maintain the highest standards of integrity in the conduct of the Group's operations. An open culture is encouraged within the Group with regular communications and meetings with staff where open dialogue and feedback is sought.

The Group is committed to conducting its business in a socially responsible manner and to respect the needs of employees, investors, customers, suppliers, regulators, and other stakeholders. The Group is also committed to being a responsible employer and to promoting values, standards and policies designed to assist our employees in their conduct, working and business relationships.

The most significant impact on the environment from the Group's activities is the emission of greenhouse gases as a result of running the Group's offices, associated travel, and the recycling of waste. The Group is committed to minimising the amount of travel employees undertake and to recycling as much of the Group's waste as possible. The Group will continue to look at ways to act in a socially responsible manner.

## BOARD OF DIRECTORS

**DAVID HUDD**

**Non-Executive Chairman and, Legal Consultant**

David joined the executive team as Legal Consultant on 1 July 2020 having previously been a non-executive director of the Company since June 2018. David is responsible for all legal affairs of the Group. David trained as a solicitor with Linklaters and after a successful career as an investment banker in structured finance joined Hogan Lovells, the international law firm, as a partner in 1994. He was consistently ranked as a market-leading lawyer for over 25 years. From 2005 David led the firm's global finance practice before assuming the role of Deputy CEO in 2014. He retired from this position and as a partner in June 2020 but continues to serve as Senior Counsel at Hogan Lovells. David earned his MA Jurisprudence (Oxon) in 1980 and qualified as a solicitor in 1983.

David joined the Board in June 2018 as a non-executive director, became an executive director on 1 July 2020 and subsequently became Chairman in July 2021.

**JONATHAN MASSING**

**Non-Executive Deputy Chairman**

Jonathan is Non-Executive Deputy Chairman and, since 1 January 2021, is a member of the Audit Committee. He brings wide ranging experience to the Board, in particular in corporate finance and acquisitions. He has a strong background in commercial and corporate finance advisory, buyouts, venture capital, shareholder dispute advisory, and private businesses valuation. Jonathan is a Chartered Accountant and has extensive experience in the sale and acquisition of private companies and provides advice on debt structures and working capital facilities. In 1998 he set up Kingswood Investment Partners Limited as a private equity investor. He is also a founder of Kingswood Property Finance Limited Partnership and founded a City-based advisory firm Kingswood in 1993.

Jonathan joined the Board in October 2017.

**GARY WILDER**

**Non-Executive Director**

Gary is a Chartered Accountant and a graduate of the Cass Business School, University of London. He has over 30 years' experience in pan-European private equity and real estate, particularly in investment, capital raising, structuring, debt financing and asset management. He is the co-founder of Kingswood Property Finance Limited Partnership where he made a series of long-term strategic investments in financial services. Gary's key responsibilities include building strategic relationships with new and existing investors, bankers, financial advisers and directing capital raising efforts to the growth and expansion of the platform.

Gary joined the Board in October 2017. In April 2022, Gary stepped back into a Non-Executive director role.

**JONATHAN FREEMAN**

**Non-Executive Director**

Jonathan is a Non-Executive Director and chairs the Audit Committee and the Risk and Compliance Committee. He is also a member of the Nomination and Remuneration Committee. He is a seasoned corporate financier and company director with extensive experience of listed companies, financial services and FCA regulated entities. This experience is important to the Group as it is quoted on AIM and subsidiary entities are regulated by the Financial Conduct Authority in the UK. Jonathan was also the senior independent non-executive director of Futura Medical plc during the year under review.

Jonathan joined the Board in June 2018.

**HOWARD GARLAND**

**Non-Executive Director**

Howard holds a First-Class Honours degree in Mathematics from University College London. Howard is a partner at Pollen Street Capital and a member of its private equity and credit investment committees. Howard re-joined Pollen Street Capital in 2015 having been a Principal at RBS until 2012. Prior to re-joining Pollen Street Capital as Partner in 2015, Howard assisted the Swedish credit institution Hoist Finance in entering the UK debt collecting and NPL debt purchasing sector, supporting the acquisition of a number of UK companies and debt portfolios in both structuring and operational roles. Howard is also on the Board of Punkta.

Howard joined the Board in December 2019.

## BOARD OF DIRECTORS

**LINDSEY McMURRAY**

**Non-Executive Director**

Lindsey holds a First-Class Honours degree in Accounting and Finance and holds an MPhil in Finance from Strathclyde University. Lindsey has been a private equity and credit investor for more than 26 years with a focus on the financial and business services sector. Alongside Kingswood, Lindsey sits on the Boards of Shawbrook Bank, CashFlows, 1st Stop Group and BidX1. Lindsey co-founded Pollen Street Capital in 2013 and serves as Managing Partner. Lindsey is the Chairman of the Pollen Street Capital's private equity and credit investment committees. Prior to Pollen Street Capital, Lindsey worked at RBS and spent six years at Cabot Square Capital, where she was a Partner focused on investments in the financial services sector.

Lindsey joined the Board in December 2019.

**DAVID LAWRENCE**

**Chief Executive Officer**

David was appointed as UK CEO of Kingswood in December 2020 and has over 30 years' experience in financial services, predominantly with Lloyds Banking Group where he held numerous executive leadership roles in distribution and functional areas across its Retail, Commercial and Insurance divisions. In 2014, David became the Commercial Director and then Chief Operating Officer for Lloyds' Private Banking and Wealth businesses with additional responsibility for its Mass Affluent proposition and strategy. He played a lead role in the establishment of Schroders Personal Wealth, a joint venture wealth management business between Lloyds Banking Group and Schroders, becoming Chief Commercial Officer for this business in March 2019.

David joined the Board in April 2022 as Chief Executive Officer.

# DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group, together with the audited financial statements, for the year to 31 December 2021. The Corporate Governance Statement is set out from page 20 onwards. All financial information given in this Directors' Report is taken solely from the statutory results prepared in accordance with UK adopted international accounting standards.

**Principal activities**

The principal activities of the Group are the operation of a financial planning and investment management business.

**Financial risk management objectives and policies**

Information about the Group's risk management is included in the Strategy section under Risks & Uncertainties.

**Results and dividends**

The Group's performance during the year is discussed in the Strategy section on pages 2 to 19. The results for the year are set out in the audited Consolidated Statement of Comprehensive Income on page 41. The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (31 December 2020: £nil).

**Capital structure**

Details of KHL's issued share capital, together with details of the movements in the number of shares during the year, are shown in notes 23 and 24.

**Capital management**

The primary objective of the Company's capital management strategy is to maintain a strong capital structure in order to support the development of its business, to maximise shareholder value and to provide benefits for its other stakeholders. Details of the management of this risk can be found in the Strategy section under Risks & Uncertainties.

All of the regulated entities within the Group must also comply with the FCA capital adequacy rules.

Kingswood US has majority ownership interests in four US regulated entities – two are subject to regulatory oversight by FINRA and two come under the SEC's regulatory regime for Registered Investment Advisers (RIAs) – and must comply with certain capital adequacy requirements.

**Directors**

The names and a short biography of the Directors of the Company are set out on pages 26 to 27.

The appointment and replacement of Directors is governed by the Company's Articles of Association, The Companies (Guernsey) Law, 2008 and related legislation. The Company's Articles of Association themselves may be amended by special resolution of the Company's shareholders. The Group also applies the Quoted Companies Alliance Corporate Governance Code.

The Company's Articles of Association provide that generally one third (rounded down to the nearest whole number) of the Board of Directors are required to retire by rotation, save for Directors who are appointed during the year, who must stand down and offer themselves for re-election at the next occurring Annual General Meeting (AGM) of the Group. The Directors who offer themselves for re-election will be announced in conjunction with the AGM announcement, which is expected to be held in the latter part of the year.

# DIRECTORS' REPORT

### Directors' interests

Directors who held office during 2021 had the following beneficial interests in the ordinary shares of the Company as of 31 December 2021:

| | No. Ordinary shares held | |
|---|---|---|
| **Director** | **2021** | **2020** |
| Jonathan Freeman | 87,750 | 87,780 |
| Howard Garland | - | - |
| Patrick Goulding | - | - |
| David Hudd | 500,000 | 500,000 |
| Lindsey McMurray | - | - |
| Robert Suss | - | - |
| Buzz West | 4,536,076 | 4,536,076 |
| Gary Wilder | 1,115,051 | - |
| Gary Wilder and Jonathan Massing** | 143,720,906 | 143,220,906 |

** Gary Wilder and Jonathan Massing's shares relate to KPI (Nominees) Limited's holding as both have a beneficial interest in that entity.

### Employees

It is the Company's policy to involve employees in the day-to-day operation of the Group's business and ensure that matters which could concern them, including the Group's strategic objectives and performance are communicated in an open and timely fashion. The Directors seek to achieve this through executive committee meetings, subsidiary Board meetings, e-mail communication and informal staff communication.

The Group is committed to an equal opportunity policy for all prospective and existing employees such that selection takes place based on ability, qualifications and suitability for the job, irrespective of background, age, race, gender or sexual orientation. The Group's executives, senior management and employees are required to support and implement all such policies in their daily work ethic to maximise the potential of its entire workforce. A Diversity and Inclusion Forum comprising employees from across team has recently been formed to further encourage diversity and inclusion across the Group and make it a central tenet of Kingswood's culture.

Employees who become disabled during their employment with the Group will be retained and re-trained where possible.

### Future developments and events after the statement of financial position date

A review of the Group's business and an indication of likely future developments are contained in the Strategy section of this report.

### Substantial shareholdings

The Group had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights of shareholders holding 3% or more of the issued share capital of the Company as of 31 March 2022:

| Name of Shareholder | Percentage of voting rights and issues share capital | No. of ordinary shares |
|---|---|---|
| KPI (Nominees) Limited | 66.44% | 144,125,262 |
| Monecor (ETX Capital) | 4.83% | 10,476,969 |

All Shareholdings stated are beneficial. KPI (Nominees) Limited is owned and controlled by Gary Wilder and Jonathan Massing

The Company had issued 77,428,443 irredeemable, convertible preference shares at £1 per share to HSQ INVESTMENT LIMITED, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street Capital at 31 December 2021.

The preference shares are convertible into Kingswood Holdings Limited ordinary shares at 16.5p per share on or before 31 December 2023.

# DIRECTORS’ REPORT

**Directors' indemnities**

During the year the Group made qualifying third-party indemnity provisions for the benefit of its Directors and these remain in force at the date of this report.

**Going concern**

In accordance with Financial Reporting Council guidance all companies are required to provide fuller disclosures regarding the Directors’ assessment of going concern. The Group's business activities, together with the factors likely to affect its future development and liquidity and capital position, are reviewed under the key risks affecting the business section as set out in the Strategy section on pages 15 to 17.

The Directors have reviewed the cash flow forecast for the next 12 months and are satisfied that the Group can continue to prepare its financial statements on the going concern basis. As part of the Directors’ consideration of the appropriateness of adopting the going concern basis in preparing the Annual Report, a range of scenarios have been considered, including a central scenario and a severe downside scenario, based on a number of macroeconomic assumptions. The Company and Group continue to operate with sufficient levels of liquidity and capital for the next 12 months in all modelled scenarios. The Group operates centralised treasury arrangements and shares banking arrangements between the parent and its subsidiaries.

The Directors, having made appropriate enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt regarding the ability of Kingswood Holdings Limited and its subsidiaries to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Group’s financial position and of the enquiries made of the Directors of Kingswood Holdings Limited, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

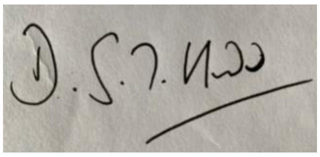
**Auditor**

Each of the persons who are Directors of Kingswood Holdings Limited at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008.

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

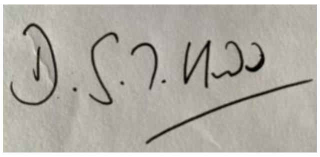


**David Hudd**
**Chairman**
**Date: 29 June 2022**

## DIRECTORS' REMUNERATION REPORT

| | Base salary incl. NIC | Pension and benefits | Termination | Option value of LTIP shares | 2021 Total | 2020 Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Executive | | | | | | |
| *Graydon Butler (resigned 31/12/2020) | - | - | - | - | - | **151** |
| *Patrick Goulding (resigned 31/12/2020) | - | - | - | - | - | **435** |
| Gary Wilder | 100 | - | - | - | **100** | **112** |
| Non-Executive | | | | | | |
| Jonathan Freeman | 61 | - | - | - | **61** | **79** |
| David Hudd | 73 | - | - | - | **73** | **40** |
| Jonathan Massing | 38 | - | - | - | **38** | **37** |
| Robert Suss (resigned 28/02/2022) | 27 | - | - | - | **27** | **33** |
| Kenneth 'Buzz' West (resigned 26/07/2021) | 41 | - | - | - | **41** | **79** |
| **Aggregate emoluments** | **340** | - | - | - | **340** | **966** |

Signed on behalf of the Board:



**David Hudd**
**Chairman**
**Date: 29 June 2022**

# DIRECTORS' RESPONSIBILITY STATEMENT

**Responsibility Statement**

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

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK adopted international accounting standards. The Directors must not approve the annual financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Consolidated Statement of Comprehensive Income for the year. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

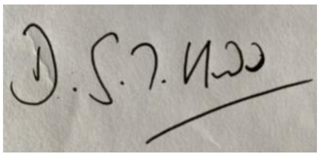
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website www.kingswood-group.com. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Responsibility statement**

We confirm that to the best of our knowledge:

- The annual financial statements, prepared in accordance with UK adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategy includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board:



**David Hudd**
**Chairman**
**Date: 29 June 2022**

**Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Kingswood Holdings Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

**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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remain independent of the Group 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.

**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 ability to continue to adopt the going concern basis of accounting included:

- Assessing and challenging the inputs and assumptions within the forecast that forms the basis of the Directors' assessment of the going concern by agreeing to supporting documentation, historical results and our knowledge of the Group and the industry;
- Performing sensitivity analysis and stress testing considering downside scenarios and assessing the impact on the Company's liquidity position;
- Reviewing the future commitments of the Group and checking they have been appropriately incorporated into the forecast; and
- Reviewing the amount of headroom in the forecasts of both base case and downside scenarios.

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 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.

**Overview**

| | | | |
|---|---|---|---|
| **Coverage**<br><br>These are the key areas which have been subject to a full scope audit. | *85% of Group loss before tax (calculated on an absolute basis)*<br>*90% of Group revenue*<br>*86% of Group total assets* | | |
| **Key audit matters** | | **2021** | **2020** |
| | Revenue recognition | ✓ | ✓ |
| | Accounting for business combinations | ✓ | ✓ |
| | Carrying value of intangible assets and goodwill | ✓ | ✓ |
| **Materiality** | *Group financial statements as a whole*<br><br>£2,230,000 (2020: £1,577,000) based on 1.5% of revenue (2020: 2.5% of net assets) | | |

**An overview of the scope of our audit**

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements.

We performed an assessment to determine which components were significant to the Group. All components which financially contributed greater than 15% of the Group's and UK's revenue were identified as significant and subject to a full scope of their complete financial information.

Five components were considered to be financially significant to the Group, with four being located in the United Kingdom and one located in the United States of America. All audit work was performed by the Group audit team.

For components that we considered to be non-significant, these components were principally subject to analytical review procedures performed by the Group audit team, together with additional testing over audit risk areas.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Key audit matter** | | **How the scope of our audit addressed the key audit matter** |
|---|---|---|
| **Revenue recognition**<br><br>As disclosed in Note 3, the Group recognised revenue of £149.7m for the year ended 31 December 2021.<br><br>Refer to Note 1 for related accounting policy. | Revenue was identified as a key audit matter as it is a key performance indicator to the users of the financial statements and because of the fraud risk surrounding the existence of revenue, therefore requiring a significant amount of auditor’s attention<br><br>Due to the quantum and growth of US Operations revenue during the year including the introduction of various material sub-streams, there is a significant risk over the existence of revenue. | Our audit strategy for the US Operations segment was solely reliant on substantive testing.<br><br>For the UK revenue streams, wealth planning and investment management, we took a blended audit strategy using test of controls and substantive testing.<br><br>Our procedures for all revenue streams, amongst others, included:<br><br>• Considering whether the revenue recognition policies are in accordance with UK adopted international accounting standards;<br>• Reconciling revenue recorded per the general ledger to underlying reports from systems;<br>• Selecting a sample of revenue transactions throughout the year and tracing to supporting documentation such as /reports/agreements with third parties and performing recalculation where possible, as well as vouching to cash receipts and verifying whether revenue was accounted for appropriately; and<br><br>Based on our assessment of the relevant control environment of the UK wealth planning and investment management segments, we adopted a different audit strategy which included the following procedures:<br><br>• For wealth planning and investment management revenue, selecting a sample of revenue transactions throughout the year and testing the design, implementation, and operating effectiveness of controls in place; and<br>• For investment management revenue, performed a substantive analytical review based on underlying off-balance sheet assets under management/ advice and fee percentage rates, a sample of which were agreed to supporting documentation such as contracts with clients.<br><br>**Key observations:**<br>Based on procedures performed, revenue is appropriately stated and classified. |

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr>
<td>Accounting for the business combinations of:<br><br>• Admiral Wealth Management Limited<br>• Money Matters (North East) Limited<br>• Metnor Holdings<br><br>As disclosed in Note 28 of the financial report, on 18 August 2021, Kingswood Holdings Limited acquired 100% of the membership interests in Admiral Wealth Management Limited.<br><br>As disclosed in Note 28 of the financial report, on 30 November 2021, Kingswood Holdings Limited acquired 100% of the membership interests in Money Matters (North East) Limited.<br><br>As disclosed in Note 28 of the financial report, on 31 December 2021, Kingswood Holdings Limited acquired 100% of the membership interests in Metnor Holdings Ltd.<br><br>Refer to Note 1 for related accounting policy.</td>
<td>The accounting and disclosure for these acquisitions is a key audit matter due to the significant judgement and complexity involved in assessing whether the control has passed, the fair value of identifiable assets and liabilities and the final consideration which included contingent deferred consideration (based on earn-outs). In addition, the assessment of whether any elements of deferred and contingent consideration would need to be treated as post-combination remuneration has a significant impact to the financial statements.</td>
<td>Our procedures, amongst others, included:<br><br>• Reviewing the acquisition agreements to understand the key terms and conditions, and confirming our understanding of the transaction with management.<br>• Assessing whether control is established per IFRS 10 Consolidated Financial Statements.<br>• Assessing whether a business combination has been accounted forin accordance with IFRS 3.<br>• Assessing the various elements of consideration due, together with estimation of the contingent consideration by assessing the reasonableness of management's forecasts by comparison to historical results and reviewing key assumptions around probability of achievement of earn-outs;<br>• Assessing the acquisition agreements to determine if any elements of deferred and contingent consideration would need to be treated as post-combination remuneration;<br>• Comparing the assets and liabilities recognised on acquisition against the completion accounts of the acquired businesses;<br>• Evaluating the assumptions and methodology in management's determination of the fair value of assets and liabilities acquired which included:<br><br>    o Obtaining a copy of the management's expert's external valuation report and engaging of internal valuations expert to critically assess the determination of fair values of identifiable assets and liabilities associated with the acquisitions.<br><br>Key observations:<br>Based on procedures performed, acquisition accounting for the above listed transactions is appropriately stated and classified.</td>
</tr>
</table>

| **Key audit matter** | | **How the scope of our audit addressed the key audit matter** |
|---|---|---|
| **Carrying value of intangible assets and goodwill**<br><br>At 31 December 2021, the carrying value of intangible assets and goodwill was £80.3m, as disclosed in Note 14.<br><br>Refer to Note 1 and 2 for detailed disclosures, which include the related accounting policies and critical accounting judgements and estimates. | The assessment of the carrying value of intangible assets and goodwill requires management to make significant accounting judgements and estimates in producing the value in use models used to determine whether the assets are appropriately recognised.<br><br>Upon acquisition, goodwill has been allocated to a cash generating unit. Management has determined that four cash generating units exist, being investment management, wealth planning and US operations.<br><br>An annual impairment test for intangible assets is required for indefinite life assets or where there are indications of impairment under IAS 36 *Impairment of Assets*.<br><br>The carrying value of intangible assets and goodwill is a key audit matter due to the significant accounting judgements and estimates applied in supporting the carrying values. | Our procedures, amongst others, included:<br><br>• Reviewing the reasonableness of management's assessment in establishing cash generating units by comparison to management information and our understanding of the Group's operations and requirements of the accounting standards<br>• Analysing management's key assumptions used in the value in use models to determine their reasonableness including:<br>  ○ Challenging the appropriateness of management's discount rates used in the value in use models with the assistance of internal valuations experts;<br>  ○ Challenging assumptions around timing of future cash flows by comparison to post-year end management information and Directors' cashflow forecasts;<br>  ○ Checking the mathematical accuracy of the value in use models;<br>• Performing sensitivity analysis on key assumptions to determine if there would be significant change to the carrying value of the asset; and<br>• Considering any additional impairment indicators and the impact on management's assumptions.<br><br>**Key observations:**<br>Based on procedures performed, valuation of goodwill and intangibles is appropriately stated. |

**Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | Group financial statements | |
|---|---|---|
| | 2021<br>£ | 2020<br>£ |
| **Materiality** | 2,230,000 | 1,577,000 |
| **Basis for determining materiality** | 1.5% of Revenue | 2.5% of Net assets |
| **Rationale for the benchmark applied** | The expansion of the Group towards the end of 2020 has resulted in a shift of user focus to revenue, with users considered to be most interested in a return to positive EBITDA, aimed to be driven by increased revenues. | Net assets is of particular interest to the users of the financial statements. We do not consider profit to be an appropriate benchmark as the Group is loss-making. |
| **Performance materiality** | 1,450,000 (65% of Materiality) | 1,103,000 (70% of Materiality) |
| **Basis for determining performance materiality** | We considered the risk and control environment and the history of misstatements of the Group. | We considered the risk and control environment of the Group |

*Component materiality*

We set materiality for each component of the Group at a lower level of materiality, dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £85,000 to £2,084,000 (2020: £84,000 to £1,261,000). In the audit of each component, we further applied performance materiality levels of 65% or 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

*Reporting threshold*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £44,000 (2020: £31,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**Other information**

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

**Other Companies (Guernsey) Law, 2008 reporting**

| | |
|---|---|
| **Matters on which we are required to report by exception** | We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:<br>• proper accounting records have not been kept by the Parent Company; or<br>• the financial statements are not in agreement with the accounting records; or<br>• we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit. |

**Responsibilities of Directors**

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

In preparing the financial statements, the Directors are responsible for assessing the Group'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 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.

*Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Group and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These laws and regulations included but were not limited to compliance with the Companies (Guernsey) Law, 2008, AIM Rules for Companies, those resulting from being authorised by the Financial Conduct Authority to undertake regulated activities and UK adopted international accounting standards.
- We considered compliance with laws and regulations that could give rise to a material misstatement in the Group's financial statements. Our tests included, but were not limited to:
    - Agreement of the financial statement disclosures to underlying supporting documentation;
    - Enquiries of management;
    - Sample testing of journal postings made during the year and post year end to identify potential management override of controls;
    - Review of meeting minutes throughout the period; and
    - Assessment of the susceptibility of the financial statements to material misstatement, including how fraud might occur. This includes areas that are subject to a high degree of management's estimates and judgements as covered by the key audit matters above.

- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and discussed how and where these might occur and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://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 Parent Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**DocuSigned by:**

BDO LLP

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BDO LLP
Chartered Accountants
London, UK
29 June 2022

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

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### *FOR THE YEAR ENDED 31 DECEMBER 2021*

| | Notes | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|---|
| **Revenue** | **3** | 149,716 | 25,477 |
| Direct expenses | | (120,497) | (8,471) |
| **Gross profit** | | 29,219 | 17,006 |
| Operating staff costs | **6** | (15,157) | (11,148) |
| Other operating costs | | (7,735) | (5,052) |
| Total operating costs | | (22,892) | (16,200) |
| Share of post-tax profits of equity accounted associates | | - | 56 |
| **Operating profit** | | 6,327 | 862 |
| *Non-operating costs:* | | | |
| Business re-positioning costs | **4** | (1,564) | (1,801) |
| Finance costs | **7** | (4,927) | (554) |
| Amortisation and depreciation | **4** | (2,399) | (1,822) |
| *Acquisition-related items:* | | | |
| Other (losses) / gains | **8** | (3,056) | 1,744 |
| Remuneration charge (deferred consideration) | **21** | (7,009) | (7,254) |
| Transaction costs | **4** | (1,836) | (1,855) |
| **Loss before tax** | | (14,464) | (10,680) |
| Tax | **9** | (761) | (60) |
| **Loss after tax** | | (15,225) | (10,740) |
| Other comprehensive income / (loss) | | | |
| *Items that may not be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 367 | (855) |
| **Total comprehensive loss** | | (14,858) | (11,595) |

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

### *FOR THE YEAR ENDED 31 DECEMBER 2021*

| | | | |
|---|---|---|---|
| **Loss after tax is attributable to:** | | | |
| - Owners of the parent company | | (17,432) | (11,000) |
| - Non-controlling interests | | 2,207 | 260 |
| **Total comprehensive loss is attributable to:** | | | |
| - Owners of the parent company | | (17,065) | (11,855) |
| - Non-controlling interests | | 2,207 | 260 |
| **Loss per share:** | | | |
| - Basic loss per share | **11** | £ (0.08) | £ (0.05) |
| - Diluted loss per share | **11** | £ (0.08) | £ (0.05) |

The notes on pages 48 to 93 form an integral part of the financial statements

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### *AS AT 31 DECEMBER 2021*

| | Notes | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | **12** | 941 | 927 |
| Right-of-use assets | **13** | 2,719 | 2,828 |
| Goodwill and other intangible assets | **14** | 80,255 | 47,616 |
| Deferred tax asset | **15** | - | 392 |
| | | 83,915 | 51,763 |
| **Current assets** | | | |
| Short term investments | | 65 | - |
| Trade and other receivables | **16** | 5,749 | 24,204 |
| Cash and cash equivalents | **18** | 42,933 | 3,899 |
| | | 48,747 | 28,103 |
| **Total assets** | | 132,662 | 79,866 |
| **Current liabilities** | | | |
| Trade and other payables | **19** | 26,084 | 12,955 |
| Deferred consideration payable | **21** | 7,706 | 836 |
| | | 33,790 | 13,791 |
| **Non-current liabilities** | | | |
| Deferred consideration payable | **21** | 14,482 | 3,232 |
| Other non-current liabilities | **22** | 2,915 | 10,802 |
| Deferred tax liability | **15** | 4,577 | 1,889 |
| **Total liabilities** | | 55,764 | 29,714 |
| **Net assets** | | 76,898 | 50,152 |
| **Equity** | | | |
| Share capital | **23** | 10,846 | 10,846 |
| Share premium | **23** | 8,224 | 8,224 |
| Preference share capital | **24** | 70,150 | 37,550 |
| Other reserves | | 11,041 | (519) |
| Foreign exchange reserve | | (488) | (855) |
| Retained (loss) | | (23,800) | (6,159) |
| **Equity attributable to the owners of the Parent Company** | | 75,973 | 49,087 |
| Non-controlling interests | | 925 | 1,065 |
| **Total equity** | | 76,898 | 50,152 |

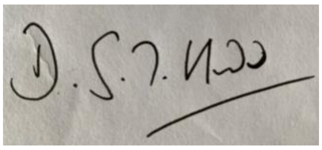
# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## *AS AT 31 DECEMBER 2021*

The notes on pages 48 to 93 form an integral part of the financial statements

The financial statements of Kingswood Holdings Limited (registered number 42316) were approved and authorised for issue by the Board of Directors, and signed on its behalf by:



David Hudd

Chairman

Date: 29 June 2022

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### *FOR THE YEAR ENDED 31 DECEMBER 2021*

| | Share capital and share premium | Preference share capital | Other reserves | Foreign exchange reserve | Retained earnings | Equity attributable to the owners of the parent Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 1 January 2020** | 19,070 | 4,586 | (296) | - | 4,841 | 28,201 | - | 28,201 |
| Loss for the year | - | - | - | - | (11,000) | (11,000) | 260 | (10,740) |
| Amounts attributable to non-controlling interests | - | - | - | - | - | - | 805 | 805 |
| Issue of preference share capital | - | 32,964 | - | - | - | 32,964 | - | 32,964 |
| Share based remuneration | - | - | (223) | - | - | (223) | - | (223) |
| Foreign exchange loss | - | - | - | (855) | - | (855) | - | (855) |
| **Balance at 31 December 2020** | 19,070 | 37,550 | (519) | (855) | (6,159) | 49,087 | 1,065 | 50,152 |
| Loss for the year | - | - | - | - | (17,432) | (17,432) | 2,207 | (15,225) |
| Dividends due to non-controlling interests | - | - | - | - | - | - | (2,402) | (2,402) |
| Other adjustment | - | - | - | - | (209) | (209) | - | (209) |
| Issue of share capital | - | - | - | - | - | - | - | - |
| Issue of preference share capital | - | 32,600 | - | - | - | 32,600 | - | 32,600 |
| Share based remuneration | - | - | 94 | - | - | 94 | - | 94 |
| Preference share capital reserve | - | - | 11,466 | - | - | 11,466 | - | 11,466 |
| Foreign exchange gain | - | - | - | 367 | - | 367 | 55 | 422 |
| **Balance at 31 December 2021** | 19,070 | 70,150 | 11,041 | (488) | (23,800) | 75,973 | 925 | 76,898 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

### *FOR THE YEAR ENDED 31 DECEMBER 2021*

Note 23 provides further details of, and the split between, Share Capital and Share Premium.

Additional reserves consist of foreign exchange translation, other reserves including share-based remuneration and expenses charged against reserves.

The notes on pages 48 to 93 form an integral part of the financial statements

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

### *FOR THE YEAR ENDED 31 DECEMBER 2021*

| | Notes | 2021<br>£'000 | 2020<br>(restated)<br>£'000 |
|---|---|---|---|
| **Net cash from/(used in) operating activities** | **25** | 1,741 | (6,728) |
| **Investing activities** | | | |
| Property, plant and equipment purchased | | (127) | (796) |
| Business Combinations | | (12,720) | (10,579) |
| Deferred consideration | | (738) | - |
| **Net cash used in investing activities** | | (13,585) | (11,375) |
| **Financing activities** | | | |
| Proceeds from issue of shares | | 52,600 | 20,243 |
| Interest paid | | (58) | (17) |
| Lease payments | | (650) | (421) |
| Dividends paid to non-controlling interests | | (1,272) | - |
| New loans received / loans repaid | | 18 | 255 |
| **Net cash generated from financing activities** | | 50,638 | 20,060 |
| **Net increase/(decrease) in cash and cash equivalents** | | 38,794 | 1,957 |
| Cash and cash equivalents at beginning of year | | 3,899 | 2,006 |
| Effect of foreign exchange rates | | 240 | (64) |
| **Cash and cash equivalents at end of year** | **18** | 42,933 | 3,899 |

Prior period financials have been restated to correctly recognise contingent deferred consideration payments, linked to the continued employment of the acquiree's employees, as an operating cash outflow in the Consolidated Statement of Cash Flows. Previously all deferred consideration payments related to acquisitions were included in the deferred consideration line within net cash used in investing activities.

In 2020, the cash outflow reclassified from investing activities to operating activities was £5,153,000.

The notes on pages 48 to 93 form an integral part of the financial statements

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### 1 Accounting policies

**General information**
Kingswood Holdings Limited is a company incorporated in Guernsey under The Companies (Guernsey) Law, 2008. The shares of the Company are traded on the AIM market of the London Stock Exchange (ticker symbol: KWG). The nature of the Group's operations and its principal activities are set out in the Strategic Report. Certain subsidiaries in the Group are subject to the FCA's regulatory capital requirements and therefore required to monitor their compliance with credit, market and operational risk requirements, in addition to performing their own assessment of capital requirements as part of the ICAAP.

### 1.1 Basis of accounting

The financial statements of the Group have been prepared in accordance with UK adopted international accounting standards and in line with the Guernsey Company Law.

The financial statements have been prepared on the historical cost basis; except for the revaluation of financial instruments (please refer to significant accounting policies note 1.3 for details). Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

### 1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

The subsidiaries of the Group are detailed in note 17.

All businesses are consolidated from the date of acquisition.

For the purpose of the consolidated financial statements, the results and financial position of each subsidiary are expressed in pounds sterling, which is the functional and presentation currency for the consolidated financial statements.

### 1.3 Significant accounting policies

**Going concern**
The Directors review the going concern position of the Group on a regular basis as part of the monthly reporting process which includes consolidated management accounts and cash flow projections and have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

**Revenue recognition**

*Performance obligations and timing of revenue recognition*
The majority of the Group's UK revenue, being investment management fees and ongoing wealth advisory, is derived from the value of funds under management / advice, with revenue recognised over the period in which the related service is rendered. This method reflects the ongoing portfolio servicing required to ensure the Group's contractual obligations to its clients are met. This also applies to the Group's US Registered Investment Advisor ("RIA") business.

For certain commission, fee-based and initial wealth advisory income, revenue is recognised at the point the service is completed. This applies in particular to the Group's US Independent Broker Dealer ("IBD") services, and its execution-only UK investment management. There is limited judgement needed in identifying the point such a service has been provided, owing to the necessity of evidencing, typically via third-party support, a discharge of pre-agreed duties.

**1 Accounting policies**

The US division also has significant Investment Banking operations, where commission is recognised on successful completion of the underlying transaction.

*Determining the transaction price*
Most of the Group's UK revenue is charged as a percentage of the total value of assets under management or advice. For revenue earned on a commission basis, such as the US broker dealing business, a set percentage of the trade value will be charged. In the case of one-off or ad hoc engagements, a fixed fee may be agreed.

*Allocating amounts to performance obligations*
Owing to the way in which the Group earns its revenue, which is largely either percentage-based or fixed for discrete services rendered, there is no judgement required in determining the allocation of amounts received. Where clients benefit from the provision of both investment management and wealth advisory services, the Group is able to separately determine the quantum of fees payable for each business stream.

Further details on revenue, including disaggregation by operating segment and the timing of transfer of service(s), are provided in note 3 below.

**Borrowing costs**
All borrowing costs are measured at the present value of the contractual payments due to the lender over the loan term, with the discount rate determined by reference to the interest rate inherent in the loan.

**Retirement benefit costs**
The Group contributes to defined contribution pension schemes, held in separately administered funds. Contributions to the schemes are charged as per employee contracts through the profit or loss as they fall due.

**Taxation**

*Current tax*
The tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Tax is recognised in the Statement of Comprehensive Income, except where a charge attributable to an item of income and expense is recognised as other comprehensive income, or where an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Group operates and generates income.

### 1 Accounting policies

*Deferred tax*

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Detailed financial forecasts are in place to support the carrying value of the deferred asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the Statement of Comprehensive Income, except where a charge attributable to an item of income and expense is recognised as other comprehensive income, or where an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following basis:

- Office equipment, fixtures and fittings:
- IT equipment and software:

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Depreciation periods for newly-acquired businesses may vary, however the Group aims to harmonise such accounting estimates within 12 months.

### 1 Accounting policies

**Business combinations**

All business combinations are accounted for by applying the acquisition method. The acquisition method involves recognition, at fair value, of all identifiable assets and liabilities, including contingent liabilities, of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Where a full assessment of fair values is not practicable at the signing of these financial statements, provisional accounting has been adopted. The cost of business combinations is measured based on the fair value of the equity or debt instruments issued and cash or other consideration paid, plus any directly attributable costs. The consideration liability is contingent on performance requirements during the deferred consideration period. The value of the contingent consideration is determined by EBITDA and/or revenue targets agreed on the acquisition of each asset, as defined under the respective Purchase Agreements. As at the reporting date, the Group is expecting to pay the full value of its deferred consideration as all acquisitions are on target to meet the requirements.

Where the payment of deferred consideration is contingent on the continued employment of the seller(s) of a business post-acquisition during the deferred payment period, such contingent consideration is treated as remuneration in accordance with IFRS 3, and accounted for as a charge against profits as incurred. No deferred liability is created for this portion of consideration at the time of acquisition.

Goodwill arising on a business combination represents the excess of cost over the fair value of the Group's share of the identifiable net assets acquired and is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment. Any impairment is recognised immediately through the profit and loss. Negative goodwill arising on an acquisition is recognised immediately through the profit and loss.

*Impairment*

Goodwill and other intangible assets with an indefinite life are tested annually for impairment. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquisition are assigned to those units. The carrying amount of each CGU is compared to its recoverable amount. For more detail refer to note 14.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

**Intangible assets**

*Client relationships*

Client relationships acquired in a business combination are recognised at fair value at the acquisition date. Relationships acquired outside of a business combination are initially recognised at cost. In assessing the fair value of these relationships, the Group has estimated their finite life based on information about the typical length of existing client relationships. Amortisation is calculated using the straight line method over their useful lives, ranging from 10 to 20 years.

*Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

**Financial assets and liabilities**

Financial assets and liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

**1 Accounting policies**

*Classification and initial measurement of financial assets*

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

As required under IFRS 9, financial assets are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group did not have any financial assets categorised as FVOCI.

*Subsequent measurement of financial assets*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

*Classification and measurement of financial liabilities*

Financial liabilities are initially measured at amortised cost or at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

**Impairment of financial assets**

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

**1 Accounting policies**

In applying this approach, IFRS 9 makes a distinction between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2); and
- financial assets that have objective evidence of impairment at the reporting date (Stage 3).

12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Under the ECL model, a dual measurement approach applies whereby a financial asset will attract an ECL allowance equal to either:

- 12 month expected credit losses (losses resulting from possible defaults within the next 12 months); or
- lifetime expected credit losses (losses resulting from possible defaults over the remaining life of the financial asset).

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

**Equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognised at the proceeds received, net of direct issue costs.

*Effective interest rates*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Reclassification of equity*

Under the Guernsey Company law, Kingswood Holdings Limited reserves the right to set movement from share premium into another reserve.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**1 Accounting policies**

**Client money**

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Conduct Authority and other regulatory bodies. Such money and the corresponding liabilities to clients are not shown on the face of the Statement of Financial Position, as the Group is not beneficially entitled thereto. The amounts held on behalf of clients at the Statement of Financial Position date are stated in note 18.

**Deferred consideration**

Deferred consideration, which is included within liabilities or equity depending on the form it takes, relates to the Directors' best estimate of amounts payable in the future in respect of certain client relationships and subsidiary undertakings that were acquired by the Group. Deferred consideration is measured at its fair value based on the discounted expected future cash flows.

The amount recognised as deferred consideration is dependent on the acquisition structure, specifically the employment terms of the seller(s) post acquisition. If payment of deferred consideration is contingent on the continued employment of the seller(s) during the deferred payment period, such contingent payment is treated as remuneration, not deferred consideration, and accounted for as a charge against profits as incurred over the deferred period.

**Remuneration payable on business combinations**

Payments due in relation to share or business purchase agreements, but which remain linked to the continued employment of the acquiree's employees, are recognised as a remuneration expense through the Consolidated Statement of Comprehensive Income. These costs are excluded from Operating Profit on the basis these costs relate to acquisitions and do not reflect the ongoing underlying business performance, and will cease when the earnout period on a given deal concludes.

**Non-operating costs and other acquisition-related items**

In addition to the above, certain other costs have been excluded from Operating Profit, on the basis these costs primarily relate to acquisitions or other non-recurring expenditure. The retained Operating Profit figure represents the Directors' assessment of the ongoing underlying performance of the core business.

**Share based remuneration**

Equity-settled share-based remuneration to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each Statement of Financial Position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Statement of Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled share based payments reserve.

### 1 Accounting policies

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with original maturities of three months or less. Cash and cash equivalents are stated net of bank overdrafts, if any.

**Leases**

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group leases a number of assets, including properties and printers.

The Group initially records a lease liability reflecting the present value of the future contractual cash flows to be made over the lease term, discounted using the Group's incremental borrowing rate. This is the rate payable by the Group on a loan of a similar term, and with similar security to obtain an asset of similar value. A right-of-use asset is also recorded at the value of the lease liability plus any directly related costs and estimated dilapidation expenses.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a duration of 12 months or less. The Group recognises the lease payments associated with such leases as an expense on a straight-line basis over the lease term.

### 2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, 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.

**Critical judgements in applying the Group's accounting policies**

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies that had the most significant effect on the amounts recognised in the financial statements.

## 2 Critical accounting judgements and key sources of estimation uncertainty

*Assessment of control*

Control is considered to exist where an investor has power over an investee, or else is exposed, and has rights, to variable returns. The Group determines control to exist where its own direct and implicit voting rights relative to other investors afford KHL – via its board and senior management – the practical ability to direct, or as the case may be veto, the actions of its investees. KHL holds 50.1% of voting rights in MHC and its subsidiaries, as well as having representation on the US division's advisory board by key KHL Board members. The Group has thus determined that the Company has the practical ability to direct the relevant activities of MHC and its subsidiaries and has consolidated the sub-group as subsidiaries with a 49.9% non-controlling interest.

*Assessment of equity accounting of associates*

Where the Group has the power to participate in, but not control, the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method.

**Estimates and Assumptions**

***Intangible assets:***

*Expected duration of client relationships*

The Group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations for the future. During the year, client relationships were amortised over a 10-20 year period as detailed in note 14.

*Goodwill*

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Goodwill is reviewed annually for impairment by comparing the carrying amount of the CGUs to their expected recoverable amount, estimated on a value-in-use basis.

***Share-based remuneration:***

*Share based payments*

The calculation of the fair value of share-based payments requires assumptions to be made regarding market conditions and future events. These assumptions are based on historic knowledge and industry standards. Changes to the assumptions used would materially impact the charge to the Statement of Comprehensive Income. Details of the assumptions are set out in note 26.

***Deferred tax:***

*Recoverability of deferred tax assets*

The amount of deferred tax assets recognised requires assumptions to be made to the financial forecasts that probable sufficient taxable profits will be available to allow all or part of the asset to be recovered. More information is disclosed in note 15 to the financial statements.

**2 Critical accounting judgements and key sources of estimation uncertainty**

***Leases:***

*Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in leases where it is the lessee, therefore, it uses its incremental borrowing rate to measure lease liabilities. This is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The incremental borrowing rate therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

***Deferred consideration:***

*Payment of deferred consideration*

The Group structures acquisitions such that consideration is split between initial cash or equity settlements and deferred payments. The initial value of the contingent consideration is determined by EBITDA and/or revenue targets agreed on the acquisition of each asset. It is subsequently remeasured at its fair value through the Statement of Comprehensive Income, based on the Directors' best estimate of amounts payable at a future point in time, as determined with reference to expected future performance. Forecasts are used to assist in the assumed settlement amount.

**3 Business and geographical segments**

Information reported to the Group's Non-Executive Chairman for the purposes of resource allocation and assessment of segment performance is focused on the category of customer for each type of activity.

The Group's reportable segments under IFRS 8 are as follows: investment management, wealth planning and US operations.

The Group has disaggregated revenue into various categories in the following table which is intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date and enable users to understand the relationship with revenue segment information provided below.

The following is an analysis of the Group's revenue and results by reportable segment for the year to 31 December 2021. The table below details a full year's worth of revenue and results for the principal business and geographical divisions, which has then reconciled to the results included in the Statement of Comprehensive Income:

| | **Investment management** | **Wealth planning** | **US operations** | **Group** | **Total** |
|---|---|---|---|---|---|
| | **2021** | **2021** | **2021** | **2021** | **2021** |
| **Continuing operations:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Revenue (disaggregated by timing):** | | | | | |
| Point in time | 881 | 2,045 | 118,396 | - | 121,322 |
| Over time | 3,771 | 15,169 | 9,431 | 23 | 28,394 |
| **External sales** | **4,652** | **17,214** | **127,827** | **23** | **149,716** |
| Direct expenses | (1,476) | (913) | (118,108) | - | (120,497) |
| **Gross profit** | **3,176** | **16,301** | **9,719** | **23** | **29,219** |
| **Operating profit / (loss)** | **365** | **5,779** | **5,123** | **(4,940)** | **6,327** |
| Business re-positioning costs | (177) | (239) | (263) | (885) | (1,564) |
| Finance costs | - | (72) | 2 | (4,857) | (4,927) |
| Amortisation and depreciation | - | (1,197) | (212) | (990) | (2,399) |
| Other gains / (losses) | - | - | - | (3,056) | (3,056) |
| Remuneration charge (deferred consideration) | - | (3,691) | - | (3,318) | (7,009) |
| Transaction costs | | (4) | | (1,832) | (1,836) |
| **Profit / (loss) before tax from continuing operations** | **188** | **576** | **4,650** | **(19,878)** | **(14,464)** |
| Tax | - | (16) | (317) | (428) | (761) |
| **Profit / (loss) after tax from continuing operations** | **188** | **560** | **4,333** | **(20,306)** | **(15,225)** |

**3 Business and geographical segments**

| | Investment management | Wealth planning | US operations | Group | Total |
|---|---|---|---|---|---|
| | **2020** | **2020** | **2020** | **2020** | **2020** |
| **Continuing operations:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Revenue (disaggregated by timing):** | | | | | |
| Point in time | 1,071 | 1,595 | 7,299 | - | 9,965 |
| Over time | 3,169 | 11,320 | 1,023 | | 15,512 |
| **External sales** | **4,240** | **12,915** | **8,322** | **-** | **25,477** |
| Direct expenses | (1,158) | (643) | (6,670) | - | (8,471) |
| **Gross profit** | **3,082** | **12,272** | **1,652** | **-** | **17,006** |
| **Operating (loss) / profit** | **(107)** | **4,380** | **543** | **(3,954)** | **862** |
| Business re-positioning costs | - | - | - | (1,801) | (1,801) |
| Finance costs | (3) | (48) | (3) | (500) | (554) |
| Amortisation and depreciation | (10) | (835) | (3) | (974) | (1,822) |
| Other gains | - | - | - | 1,744 | 1,744 |
| Remuneration charge (deferred consideration) | - | - | - | (7,254) | (7,254) |
| Transaction costs | - | - | - | (1,855) | (1,855) |
| Share of profit from associates | - | - | - | - | - |
| **(Loss) / profit before tax from continuing operations** | **(120)** | **3,497** | **537** | **(14,594)** | **(10,680)** |
| Tax | - | (2) | (101) | 43 | (60) |
| **(Loss) / profit after tax from continuing operations** | **(120)** | **3,495** | **436** | **(14,551)** | **(10,740)** |

**3 Business and geographical segments**

| | Investment management | Wealth planning | US operations | Group | Total |
|---|---|---|---|---|---|
| | 2021 | 2021 | 2021 | 2021 | 2021 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Additions to non-current assets | 2,113 | 839 | 3,995 | 27,994 | 34,941 |
| Reportable segment assets | 6,581 | 41,819 | 26,653 | 57,609 | 132,662 |
| Tax assets | | | | | - |
| **Total Group assets** | | | | | 132,662 |
| Reportable segment liabilities | 2,560 | 13,694 | 19,516 | 19,994 | 55,764 |
| **Total Group liabilities** | | | | | 55,764 |

| | Investment management | Wealth planning | US operations | Group | Total |
|---|---|---|---|---|---|
| | 2020 | 2020 | 2020 | 2020 | 2020 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Additions to non-current assets | - | 15,653 | 5,324 | 1,654 | 22,631 |
| Reportable segment assets | 2,665 | 46,793 | 11,497 | 18,519 | 79,474 |
| Tax assets | | | | | 392 |
| **Total Group assets** | | | | | 79,866 |
| Reportable segment liabilities | 1,483 | 13,125 | 7,761 | 7,345 | 29,714 |
| **Total Group liabilities** | | | | | 29,714 |

## 4 Loss after tax

| Loss after tax for the year is stated after charging | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment (incl right of use asset) | 925 | 617 |
| Amortisation of intangible assets | 1,474 | 1,205 |
| Staff costs | 15,953 | 12,081 |

See Directors' Remuneration Report on page 31 for details of Directors' remuneration during the year.

Included in the loss after tax are business re-positioning and transaction costs. Business re-positioning costs include restructuring costs in relation to staff and third-party suppliers. Transaction costs are primarily deal-related and driven by the acquisitions entered into by the Group.

## 5 Auditor's remuneration

| The analysis of fees payable to the Group's auditor is as follows: | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Audit of Company | 200 | 211 |
| Audit of Subsidiaries | 200 | 56 |
| CASS audit | 25 | 20 |
| **Total auditor's remuneration** | 425 | 287 |

## 6 Staff costs

The average monthly number of persons (including Executive Directors) is as follows:

| | 2021 | 2020 |
|---|---|---|
| Management | 6 | 8 |
| Client advisers | 49 | 50 |
| Operations | 99 | 79 |
| Finance | 13 | 7 |
| Human Resources | 4 | 4 |
| Risk and Compliance | 10 | 9 |
| **Average number of employees** | 181 | 157 |

## 6 Staff costs

Aggregate staff remuneration comprised:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Wages and salaries | 13,199 | 10,442 |
| Social security costs | 1,400 | 1,198 |
| Pension costs | 602 | 454 |
| Other benefits | 658 | 210 |
| Share-based remuneration | 94 | (223) |
| **Total staff costs** | 15,953 | 12,081 |

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Operating staff costs | 15,157 | 11,148 |
| Business re-positioning costs | 739 | 592 |
| Acquisition team costs | 57 | 341 |
| **Total staff costs** | 15,953 | 12,081 |

## 7 Finance costs

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Bank and other finance charges | 4,927 | 554 |

## 8 Other (losses) / gains

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Net unrealised (loss) / gain on investments | - | 1,744 |
| Additional payments due on acquired businesses | (2,983) | - |
| Unrealised gain/(loss) on stock | (73) | - |
| | (3,056) | 1,744 |

**9 Taxation**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Current year tax expense | 317 | (101) |
| Write off of historical corporation tax balance | (17) | - |
| Movement in deferred tax (note 15) | 461 | 41 |
| | 761 | (60) |

UK corporation tax is calculated at 19.00% (2020: 19.00%) of the estimated assessable profits for the year. The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax applied to profits for the year are as follows:

| | 2021 | 2020 |
|---|---|---|
| Loss before tax on continuing operations | (14,464) | (10,680) |
| Loss before taxation | (14,464) | (10,680) |
| Tax at the UK corporation tax rate of 19.00% (2020:19.00%) | (2,748) | (2,029) |
| Expenses not deductible for tax purposes | 3,531 | 1,687 |
| Adjustments for Statement of Financial Position items | 133 | 400 |
| Benefit of superdeduction | (2) | - |
| Prior year true-up | (17) | - |
| Adjustment for revenue ineligible for tax purposes | (250) | (329) |
| Unrelieved tax losses carried forward | 202 | 376 |
| Movement in deferred tax | 461 | (41) |
| Different tax rates applied in overseas jurisdictions | (549) | (4) |
| Taxation charge in the financial statements | 761 | 60 |

**10 Dividends**

The Directors are not proposing to pay a dividend to ordinary shareholders in respect of the year ended 31 December 2021 (year ended 31 December 2020: £nil).

### 11 Earnings per share

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Loss from continuing operations for the purposes of basic loss per share, being net loss attributable to owners of the Group | (17,432) | (11,000) |

**Number of shares**

| | 2021 | 2020 |
|---|---|---|
| Weighted average number of ordinary shares assuming above conversion events | 216,920,724 | 216,920,724 |
| Effect of potential ordinary conversion: | | |
| Convertible preference shares in issue | 271,986,413 | 70,965,175 |
| Share options | 5,702,567 | 14,178,963 |
| **Weighted average number of ordinary shares assuming conversion** | 494,609,704 | 302,064,862 |

Owing to the Group being in a loss-making position for the years ending 31 December 2020 and 2021, the effect of any conversion events would be antidilutive to the loss per share. Therefore the diluted loss per share has not been restated from the basic loss per share of £0.08 (2020: loss per share £(0.05)).

### 12 Property, plant and equipment

| | Fixtures and equipment<br>£'000 |
|---|---|
| **Cost** | |
| At 1 January 2021 | 1,380 |
| Additions | 275 |
| At 31 December 2021 | 1,655 |
| **Accumulated depreciation** | |
| At 1 January 2021 | 453 |
| Depreciation charged in the year | 261 |
| At 31 December 2021 | 714 |
| **Net book value** | |
| At 31 December 2021 | 941 |

**12 Property, plant and equipment**

| | **Fixtures and equipment** |
|---|---|
| | **£'000** |
| **Cost** | |
| At 1 January 2020 | 564 |
| Additions | 816 |
| At 31 December 2020 | 1,380 |
| **Accumulated depreciation** | |
| At 1 January 2020 | 343 |
| Depreciation charged in the year | 110 |
| At 31 December 2020 | 453 |
| **Net book value** | |
| At 31 December 2020 | 927 |

### 13 Right-of-use assets

| | Land and buildings £'000 |
|---|---|
| **Cost** | |
| At 1 January 2021 | 3,569 |
| Prior year reclassification | (35) |
| Additions | 555 |
| At 31 December 2021 | 4,089 |
| **Accumulated depreciation** | |
| At 1 January 2021 | 741 |
| Prior year reclassification | (35) |
| Depreciation charged in the year | 664 |
| At 31 December 2021 | 1,370 |
| **Net book value** | |
| At 31 December 2021 | 2,719 |

| | Land and buildings £'000 |
|---|---|
| **Cost** | |
| At 1 January 2020 | 1,335 |
| Additions | 2,234 |
| At 31 December 2020 | 3,569 |
| **Accumulated depreciation** | |
| At 1 January 2020 | 234 |
| Depreciation charged in the year | 507 |
| At 31 December 2020 | 741 |
| **Net book value** | |
| At 31 December 2020 | 2,828 |

## 14 Goodwill and other intangible assets

| | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| At 1 January 2021 | 25,684 | 27,968 | 53,652 |
| Additions | 19,439 | 14,647 | 34,086 |
| Disposals | (40) | - | (40) |
| Exchange adjustments | 67 | - | 67 |
| At 31 December 2021 | 45,150 | 42,615 | 87,765 |
| **Accumulated amortisation** | | | |
| At 1 January 2021 | 2,279 | 3,757 | 6,036 |
| Amortisation charged for the year | - | 1,474 | 1,474 |
| At 31 December 2021 | 2,279 | 5,231 | 7,510 |
| **Net book value** | | | |
| At 31 December 2021 | 42,871 | 37,384 | 80,255 |

| | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| At 1 January 2020 | 16,384 | 17,655 | 34,039 |
| Additions | 9,300 | 10,313 | 19,613 |
| At 31 December 2020 | 25,684 | 27,968 | 53,652 |
| **Accumulated amortisation** | | | |
| At 1 January 2020 | 2,202 | 2,629 | 4,831 |
| Amortisation charged for the year | 77 | 1,128 | 1,205 |
| At 31 December 2020 | 2,279 | 3,757 | 6,036 |
| **Net book value** | | | |
| At 31 December 2020 | 23,405 | 24,211 | 47,616 |

**Goodwill**

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from that business combination.

The Group has identified four CGUs at 31 December 2021 analysed between Investment Management, Wealth Planning and its US operations split between RIA and IBD operations and the Investment Banking business. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of asset. Key management information is prepared and reviewed across the Group's operating segments, and proposed acquisitions are analysed in one of those segments.

**14 Goodwill and other intangible assets**

This is the eighth year in which the investment management and wealth planning CGUs have been analysed in this format. As the goodwill recognised on US acquisitions is not considered to be allocable on a non-arbitrary basis to individual CGUs, the carrying value of goodwill recognised on US acquisitions in 2020 is attributed to the combined US operating segment, made up of the RIA/IBD and Investment Banking CGUs. KHL acquired KW Wealth Group Limited (KWWG) in 2014. KWWG has been split between investment management and wealth planning CGUs depending on which CGU the relevant assets are allocated to.

The carrying value of goodwill at 31 December 2021 is allocated as follows:

| | Investment Management | Wealth Planning | US operations | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Goodwill | 20,404 | 17,187 | 5,280 | 42,871 |

The Group tests each CGU, or groups of CGUs, at least annually for goodwill impairment. The recoverable amount of a CGU is determined as the higher of fair value less costs to sell and the value in use. Valuations are based on the discounted cash flow method. Projected cash flows are based on the most recent budget, with a terminal growth rate of 2%, which is considered prudent in the context of the long-term average growth rate for the investment management and financial planning industries in which the CGUs operate. The discount rates used were 14.7% for the investment management and wealth planning CGUs and 14.6% for the two US CGUs, reflecting the risk-free rate of interest and specific risks relating to each of the CGUs. The value of the CGU related to Level 3 fair value measurements.

The US group of CGUs exceeded its carrying amount by £32.5m and sensitivity analysis has not been performed given the vast headroom the recoverable amount provides over the goodwill balance. The value of the investment management and the wealth planning CGUs exceeded their carrying value by £145,000 and £1.3m respectively. The projected cashflows prepared by management are considered to be prudent with natural sensitivities already built into the model, as such no further sensitivity analysis has been performed.

**Intangible assets**

Intangible assets are valued based on underlying assets under management (i.e. the client lists). The assets are assessed for their useful life on a client by client basis in order to determine amortisation rates. There are currently £36.2m of intangible assets being amortised over 20 years, £1.1m over 15 years and £0.1m over 10 years.

The addition in 2021 to intangible assets represents the value of assets under management and associated client lists acquired from Admiral, Money Matters and Metnor.

The addition in 2020 to intangible assets represents the value of assets under management and associated client lists acquired from Sterling Trust and Regency.

### 15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year:

| Balances: | Liabilities 2021 £'000 | Liabilities 2020 £'000 | Assets 2021 £'000 | Assets 2020 £'000 |
|---|---|---|---|---|
| At 1 January | (1,889) | - | 392 | 428 |
| Reductions due to acquisitions | - | - | - | (38) |
| Intangibles - customer relationships and brand recognised upon acquisition of subsidiaries | (2,619) | (1,932) | - | - |
| Movement in year | (69) | 43 | (392) | 2 |
| At 31 December | (4,577) | (1,889) | - | 392 |

Deferred tax assets and liabilities may only be offset where the Group has a legally enforceable right to do so.

At the Statement of Financial Position date, the Group has unused tax losses of £19.3m (2020: £15.2m) available for offset against future profits. No deferred tax asset has been recognised in respect of tax losses for the year ended 31st Dec 2021 (2020: £392,000 was recognised) as there is some uncertainty as to the timing of future expected profit.

The UK Government announced in its budget on 3 March 2021, a rise in the rate of Corporation Tax from 19% to 25% from 1 April 2023, which was substantially enacted during the year. The increase is reflected within deferred tax in the accounts, the impact recognised being £42k.

### 16 Trade and other receivables

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Trade receivables | 1,844 | 837 |
| Prepayments | 1,307 | 1,060 |
| Other debtors | 2,598 | 22,307 |
| | 5,749 | 24,204 |

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. All trade and other receivables represent current receivables which are due within 12 months.

Included within other debtors at 31 December 2020 is £20 million due from HSQ INVESTMENT LIMITED, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street Capital Limited (Pollen Street) in consideration for the issue of 20 million convertible preference shares on 31 December 2020. This debtor was settled in full on 19 March 2021.

## 17 Subsidiaries

Kingswood Holdings Limited, the parent company incorporated in Guernsey, has the following subsidiaries as at 31 December 2021:

| Name of subsidiary | Ownership | Activity |
|---|---|---|
| KW Wealth Group Limited ("KWWG") (UK company) | 100% owned by KHL | Management services |
| KW Investment Management Limited ("KWIM") (UK company) | 100% owned by KHL | Investment management |
| KW Wealth Planning Limited ("KWWP") (UK company) | 100% owned by KHL | Wealth planning |
| Sterling Trust Financial Consulting Limited ("STFC") (UK company) | 100% owned by KHL | Holding company |
| STP Wealth Management Limited ("STPWM") (UK company) | 100% owned by STFC – non trading company | Wealth planning |
| NHA Financial Services Limited ("NHA") (UK company) | 100% owned by STFC | Holding company |
| Sterling Trust Professional (York) Limited ("STY") (UK company) | 100% owned by NHA | Wealth planning |
| Sterling Trust Professional Limited ("STP") (UK company) | 100% owned by STFC | Wealth planning |
| Sterling Trust Professional (North East) Limited ("STPNE") (UK company) | 100% owned by STFC | Wealth planning |
| Sterling Trust Professional (Sheffield) Limited ("STPS") (UK company) | 100% owned by STFC | Wealth planning |
| Money Matters (North East) Limited (UK company) | 100% owned by KHL | Wealth planning |
| Regency Investment Services Limited ("Regency") (UK company) | 100% owned by KHL | Wealth planning |
| Admiral Wealth Management Limited (UK company) | 100% owned by KHL | Wealth planning |
| Metnor Holdings Limited (UK company) | 100% owned by KHL | Holding company |
| IPN Partners Limited (UK company) | 100% owned by Metnor Holdings | Management services |
| IBOSS Asset Management Limited (UK company) | 100% owned by Metnor Holdings | Investment management |
| Novus Financial Services Limited (UK company) | 100% owned by IPN Partners | Wealth planning |
| IBOSS Limited (UK company) | 100% owned by IPN Partners | Investment management |

## 17 Subsidiaries

| Name of subsidiary | Ownership | Activity |
|---|---|---|
| EIM Nominees Limited (UK company) | 100% owned by KWIM – non trading company | Nominee company |
| XCAP Nominees Limited (UK company) | 100% owned by KWIM – non trading company | Nominee company |
| Kingswood US Holdings Inc ("KUSH") (US company) | 100% owned by KWWG – non trading company | Holding company |
| Kingswood Investments, LLC ("KINV") (US company) | 100% owned by KUSH – non trading company | Holding company |
| Kingswood U.S., LLC ("KW US") (US company) Formally Manhattan Harbor Capital | 50.1% owned by KUSH | Holding company |
| Kingswood Capital Partners, LLC ("KCP") (US company) | 100% owned by MHC | Independent broker dealer |
| Benchmark Investments, Inc ("BINV") (US company) | 100% owned by MHC | Independent broker dealer |
| Benchmark Advisory Services, LLC ("BAS") (US company) | 100% owned by MHC | Registered investment adviser |
| S.A.G. Marketing Group, LLC ("SAG") (US company) | 100% owned by MHC | Management services |
| Kingswood Capital Markets, LLC ("KCM") (US company) | 100% owned by MHC | Investment banking |
| Kingswood Wealth Advisors, LLC ("KWA") (US company) | 100% owned by MHC | Registered investment adviser |
| Marchant McKechnie Independent Financial Advisers Limited ("MMK") (UK company) | Dissolved on 16 March 2021 | Wealth planning |

Profits attributable to non-controlling interests in KW US (formally MHC) and its subsidiaries as at 31 December 2021 were £2,206,889 (US$3,030,793) and between 23 November 2020, when Kingswood acquired control, and the 31 December 2020 year-end were £435,740 (US$559,359). Dividends paid to non-controlling interest in the year were £1,271,724 (US$1,746,459) (period post-acquisition to 31 December 2020 were £160,106 (US$216,608))

Accumulated non-controlling interest of KW US and its subsidiaries as at 31 December 2021 were £924,858 (US$1,246,431). (as at 31 December 2020: £1,063,924 (US$1,452,150)).

**17 Subsidiaries**

**Summarised financial information (material subsidiaries with non-controlling interests) before intra-group adjustments:**

| As at 31 December: | 2021 $'000 | 2021 £'000 | 2020 $'000 | 2020 £'000 |
|---|---|---|---|---|
| Current assets | 21,318 | 15,818 | 6,278 | 4,600 |
| Non-current assets | 204 | 151 | 153 | 112 |
| Current liabilities | (19,049) | (14,135) | (3,019) | (2,212) |
| Non-current liabilities | (59) | (44) | (24) | (17) |

| 12 months ended 31 December: | 2021 $'000 | 2021 £'000 | 2020 $'000 | 2020 £'000 |
|---|---|---|---|---|
| Revenue | 174,367 | 126,967 | 24,487 | 19,076 |
| Profit after tax | 5,740 | 4,180 | 2,132 | 1,661 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | 5,740 | 4,180 | 2,132 | 1,661 |

**18 Cash and cash equivalents**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Cash at bank and in hand | 42,933 | 3,899 |

**Client money**
In November 2020, the Group's subsidiary KWIM moved to a Model B structure and transferred its CASS obligations to a third party service provider. Consequently, no client money was held in segregated bank accounts at 31 December 2021 (31 December 2020: £20,000).

**19 Trade and other payables**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Trade payables | 789 | 1,094 |
| Accruals and other creditors | 22,967 | 9,348 |
| Lease liability and dilapidations provision | 677 | 590 |
| Other taxation and social security | 1,581 | 1,882 |
| Other borrowings | 70 | 41 |
| | 26,084 | 12,955 |

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

### 20 Lease liabilities

The lease liabilities are included in trade and other payables and other non-current liabilities in the statement of financial position.

| | Land and buildings £'000 |
|---|---|
| At 1 January 2020 | 1,151 |
| Additions | 2,394 |
| Interest expense | 110 |
| Lease payments | (421) |
| **At 31 December 2020** | 3,234 |
| Additions | 582 |
| Interest expense | 108 |
| Lease payments | (650) |
| **At 31 December 2021** | 3,274 |

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

| **Carrying amount of lease liabilities:** | **£'000** |
|---|---|
| At 1 January 2021 | 3,234 |
| At 31 December 2021 | 3,274 |
| Due within one year | 677 |
| Due after more than one year | 2,597 |

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Short-term lease expense | 10 | 16 |
| Low value lease expense | 96 | 92 |

**20 Lease liabilities**

| **Dilapidations provisions relating to lease liabilities** | **2021 £'000** | **2020 £'000** |
|---|---|---|
| Carrying amount: | | |
| At 1 January 2021 | 508 | - |
| At 31 December 2021 | 566 | 508 |
| | | |
| Due within one year | 28 | 12 |
| Due after more than one year | 538 | 496 |

**21 Deferred consideration payable**

| | **2021 £'000** | **2020 £'000** |
|---|---|---|
| Deferred consideration payable on acquisitions: | 22,188 | 4,068 |
| - falling due within one year | 7,706 | 836 |
| - due after more than one year | 14,482 | 3,232 |

The deferred consideration payable on acquisitions is due to be paid in cash.

The deferred consideration liability is contingent on performance requirements during the deferred consideration period. The value of the contingent consideration is determined by EBITDA and/or revenue targets agreed on the acquisition of each asset, as defined under the respective Share or Business Purchase Agreement. As at the reporting date, the Group is expecting to pay the full value of its deferred consideration as all acquisitions are on target to meet the requirements, and there were additional payments for Sterling and Regency due to the Sellers achieving these contractual requirements (part of Note 8).

Previously all deferred consideration payable on acquisitions was recorded as a deferred liability and included in the fair value of assets. However, in circumstances where the payment of deferred consideration is contingent on the seller remaining within the employment of the Group during the deferred period, the contingent portion of deferred consideration is not included in the fair value of consideration paid, rather is treated as remuneration and accounted for as a charge against profits over the deferred period.

During the year, deferred consideration expensed as remuneration through profit or loss was £7,008,600 (2020: £7,253,510).

**22 Other non-current liabilities**

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Lease liability and dilapidations provision | 2,597 | 2,644 |
| Preference share liability | - | 7,365 |
| Other taxation and social security | - | 579 |
| Other borrowings | 318 | 214 |
| | 2,915 | 10,802 |

**23 Share capital**

| | 2021<br>Shares | 2020<br>Shares | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|---|---|
| **Ordinary shares issued:** | | | | |
| Fully paid | 216,920,719 | 216,920,719 | 10,846 | 10,846 |
| | 216,920,719 | 216,920,719 | 10,846 | 10,846 |

**Share capital and share premium**

| | Number of ordinary shares<br>'000 | Par value<br>£'000 | Share premium<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| At 1 January 2020 | 216,921 | 10,846 | 8,224 | 19,070 |
| Issued during year | - | - | - | - |
| At 31 December 2020 | 216,921 | 10,846 | 8,224 | 19,070 |
| Issued during year | - | - | - | - |
| **At 31 December 2021** | **216,921** | **10,846** | **8,224** | **19,070** |

Ordinary shares have a par value of £0.05 per share. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of, and amounts paid on, shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

Kingswood Holdings Limited does not have a limit on the amount of authorised capital.

As at 31 December 2021, KPI (Nominees) Limited held 143,720,906 Ordinary Shares, representing 66.3 per cent of ordinary shares in issue at year end.

**24 Preference share capital**

| | 2021 Shares | 2020 Shares | 2021 £'000 | 2020 £'000 |
|---|---|---|---|---|
| **Convertible preference shares issued:** | | | | |
| Fully paid | 77,428,443 | 44,828,443 | 70,150 | 37,550 |
| | 77,428,443 | 44,828,443 | 70,150 | 37,550 |

Preference share capital movements are as follows:

| | Number of shares '000 | Par value £'000 |
|---|---|---|
| **At 1 January 2020** | 5,728 | 5,728 |
| Issued during year | 39,100 | 39,100 |
| **At 31 December 2020** | 44,828 | 44,828 |
| Issued during year | 32,600 | 32,600 |
| **At 31 December 2021** | 77,428 | 77,428 |

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Equity component | 70,150 | 37,550 |
| Liability component | - | 7,278 |
| | **70,150** | **44,828** |

On 12 September 2019, Kingswood Holdings Limited entered into a subscription agreement with HSQ INVESTMENT LIMITED, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street, to subscribe for up to 80 million irredeemable convertible preference shares, at a subscription price of £1 each (the Subscription). Pollen Street is a global, independent alternative asset investment management company, established in 2013 with currently £3.2 billion gross AUM across private equity and credit strategies, focused on the financial and business services sectors, with significant experience in speciality finance.

All irredeemable convertible preference shares convert into new ordinary shares at Pollen Street Capital's option at any time from the earlier of an early conversion trigger or a fundraising, or automatically on 31 December 2023. Preferential dividends on the irredeemable convertible preference shares accrue daily at a fixed rate of five per cent per annum from the date of issue. Effective 17 December 2021 onwards, these will be settled via the issue of additional ordinary shares, thereby extinguishing the liability component.

### 25 Notes to the cash flow statement

Cash and cash equivalents comprise cash and cash equivalents with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents are detailed in note 18.

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| **Loss before tax** | (14,464) | (10,680) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2,399 | 1,822 |
| Finance costs | 4,927 | 554 |
| Remuneration charge (deferred consideration) | 234 | 2,101 |
| Share-based payment expense | 94 | (223) |
| Other losses / (gains) | 1,281 | (1,744) |
| Foreign exchange gain | (6) | (22) |
| Tax paid | (318) | (103) |
| Share of post-tax profits of equity accounted associates | - | (56) |
| **Operating cash flows before movements in working capital** | (5,853) | (8,351) |
| (Increase)/decrease in receivables | (449) | (1,893) |
| Increase/(decrease) in payables | 8,043 | 3,516 |
| **Net cash inflow / (outflow) from operating activities** | 1,741 | (6,728) |

## 26 Share based remuneration

**Employee Option Plan**

The Group has the following share option schemes established for employees and Directors:

- The European Wealth Group Limited EMI Scheme 2014, an HMRC approved scheme under Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003 pursuant to which options over ordinary shares of the Group may be granted to individuals (as selected by and in amounts determined by the Group's Remuneration Committee) who are employees of the Group.
- The 2019 Kingswood Group LTIP scheme under which options are granted over ordinary shares of the Group to employees and Directors. 39,750,000 options were issued with an exercise price of 5p. The vesting date of these share options is 31 December 2021. Vesting conditions include a mixture of performance and market-based conditions, tailored to the employee or director.
- The 2021 Kingswood Group LTIP scheme under which options are granted over ordinary shares of the Group to employees and Directors. 15,708,333 options were issued with an exercise price of 16.5p. The vesting date of these share options is 31 December 2023. Vesting conditions include a mixture of performance and market-based conditions, tailored to the employee or director.

If options granted under any of the schemes remain unexercised for a period of 10 years from the date of grant then the options expire. In certain circumstances, options may be exercised earlier than the vesting date if the option holder ceases to be an employee of the relevant Group company. In particular, options may be exercised for a period of six months after the option holder ceases to be employed within the Group by reason of injury, ill health or disability (evidenced to the satisfaction of the Remuneration Committee), redundancy or retirement on or after reaching the age of 55 or upon the sale or transfer out of the Group of the relevant Group member or undertaking employing or contracting with him/her.

In the event of cessation of employment or engagement of the option holder by reason of his/her death, his/her personal representatives will be entitled to exercise the option within twelve months following the date of his/her death. Where an option holder ceases to be employed within the Group for any other reason, options may also become exercisable for a limited period at the discretion of the Remuneration Committee. There are no additional performance conditions attached to the share options presently issued.

| | Average exercise price per share option | Number of options | Average exercise price per share option | Number of options |
|---|---|---|---|---|
| | 2021 | 2021 | 2020 | 2020 |
| | Pence | | Pence | |
| Outstanding at 1 January | 5.87 | 19,949,167 | 5.50 | 34,607,500 |
| Granted during the year | 16.50 | 15,708,333 | - | - |
| Exercised during the year | - | - | - | - |
| Forfeited during the year | 5.50 | (18,858,333) | 5.00 | (14,658,333) |
| Outstanding at 31 December | 16.78 | 16,799,167 | 5.87 | 19,949,167 |
| Vested and exercisable at 31 December | 20.85 | 1,090,833 | 72.17 | 257,500 |

## 26 Share based remuneration

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Grant date | Expiry date | Exercise price | Share options | Share options |
|---|---|---|---|---|
| | | Pence | 2021 | 2020 |
| 4 August 2014 | 3 August 2024 | 100.00 | 105,000 | 105,000 |
| 1 August 2016 | 31 July 2026 | 53.00 | 152,500 | 152,500 |
| 15 February 2019 | 31 December 2029 | 5.00 | 833,334 | 5,466,667 |
| 9 May 2019 | 31 December 2029 | 5.00 | - | 12,125,000 |
| 28 June 2019 | 31 December 2029 | 5.00 | - | 2,000,000 |
| 1 July 2019 | 1 July 2029 | 5.00 | - | 100,000 |
| 12 April 2021 | 31 December 2024 | 16.50 | 4,775,000 | - |
| 25 June 2021 | 31 December 2024 | 16.50 | 5,000,000 | - |
| 5 July 2021 | 31 December 2024 | 16.50 | 4,933,333 | - |
| 6 September 2021 | 31 December 2024 | 16.50 | 1,000,000 | - |
| Total | | | 16,799,167 | 19,949,167 |
| Weighted average contractual life of options outstanding at end of period | | | 3.22 years | 8.26 years |

The following information is relevant to the determination of the fair value of options granted during the year under equity settled share based remuneration schemes operated by the Group.

| | 2021 |
|---|---|
| Option pricing model used | Monte Carlo |
| Weighted average share price at grant date (p) | 25 |
| Exercise price (p) | 16.5 |
| Weighted average contractual life (in days) | 1,174 |
| Expected volatility (15 February 2019 tranche) | - |
| Expected volatility (9 May 2019 tranche) | - |
| Expected volatility (28 June 2019 tranche) | - |
| Expected volatility (1 July 2019 tranche) | - |
| Expected volatility (12 April 2021 tranche) | 75.96% |
| Expected volatility (25 June 2021 tranche) | 75.96% |
| Expected volatility (5 July 2021 tranche) | 71.40% |
| Expected volatility (6 September 2021 tranche) | 75.96% |
| Expected dividend growth rate | N/A |
| Risk-free interest rate | 0.87% |

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years.

The dividend growth rate has been assumed to be 0% as no dividends have been paid.

### 26 Share based remuneration

Total (expense) / gain arising from share-based transactions recognised during the period as part of employee benefit expense is as follows:

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Options issued under employee option plan | (94) | 223 |

### 27 Financial instruments

The following table states the classification of financial instruments and is reconciled to the Statement of Financial Position:

| | 2021<br>Carrying amount<br>£'000 | 2020<br>Carrying amount<br>£'000 |
|---|---|---|
| **Financial assets measured at amortised cost** | | |
| Trade and other receivables | 4,308 | 23,048 |
| Cash and cash equivalents | 42,933 | 3,899 |
| **Financial liabilities measured at amortised cost** | | |
| Trade and other payables | (23,826) | (10,483) |
| Other non-current liabilities | (318) | (794) |
| Lease liability | (3,274) | (3,234) |
| Preference share liability | - | (7,365) |
| **Financial liabilities measured at fair value through profit and loss** | | |
| Deferred consideration payable | (22,188) | (4,068) |
| | (2,365) | 1,003 |

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and other non-current liabilities.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates fair value.

**27 Financial instruments**

| **Item** | **Fair value £'000** | **Valuation technique** | **Fair value hierarchy level** |
|---|---|---|---|
| Deferred consideration payable | 22,188 | Fair value of deferred consideration payable is estimated by discounting the future cash flows using the IRR inherent in the company's acquisition price. | Level 3 |

There have been no transfers between levels during the period.

The potential profit or loss impact in relation to deferred consideration payable of a reasonably possible change to the discount rate is as follows:

| | | **Profit or (loss) impact** | |
|---|---|---|---|
| **Assumption** | **Reasonably possible** | **Increase** | **Decrease** |
| | | **£'000** | **£'000** |
| Discount rate change | (+ / - 5%) | (138) | 167 |

**Credit risk**

Credit risk represents the potential that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. Credit risk is monitored on a regular basis by the finance team along with support from back office functions with the respective business divisions.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of Financial Position date.

At the reporting date, the Group’s financial assets exposed to credit risk were as follows:

| | **2021** | **2020** |
|---|---|---|
| | **£'000** | **£'000** |
| Cash | 42,933 | 3,899 |
| Trade and other receivables | 4,308 | 23,048 |
| | 47,241 | 26,947 |

The Group’s exposure to credit risk on cash and cash equivalents is considered by the Directors to be low as the Group holds accounts at banks with strong credit ratings. The majority of funds are held with A rated (S&P) institutions, with a minimum rating of BBB+. See note 18 for further detail on cash and cash equivalents.

### 27 Financial instruments

**Liquidity risk**

Liquidity risk represents the potential that the Group will be unable to meet its financial obligations as they fall due. The controls and limits surrounding the Group's credit risk together with cash monitoring processes ensure that liquidity risk is minimised. The table below illustrates the maturity profile of all financial liabilities outstanding at 31 December 2021.

| | Repayable on demand | Repayable between 0-12 months | Repayable after more than 12 months | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **At 31 December 2021** | | | | |
| Trade payables | - | 789 | - | 789 |
| Other payables | - | 23,037 | 318 | 23,355 |
| Deferred consideration payable | - | 8,466 | 19,430 | 27,896 |
| Lease liabilities | - | 725 | 2,248 | 2,973 |
| | - | 33,017 | 21,996 | 55,013 |
| **At 31 December 2020** | | | | |
| Trade payables | - | 1,094 | - | 1,094 |
| Other payables | - | 9,388 | 8,158 | 17,546 |
| Deferred consideration payable | - | 873 | 4,545 | 5,418 |
| Lease liabilities | - | 779 | 3,366 | 4,145 |
| | - | 12,134 | 16,069 | 28,203 |

**Market risk**

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

**27 Financial instruments**

***Price risk***
As with other firms in our sector, the Group is vulnerable to adverse movements in the value of financial instruments. The Group's business will be partially dependent on market conditions and adverse movements may have a significant negative effect on the Group's operations through reducing off-Balance Sheet assets under management, given its fees are largely calculated at a percentage of these client assets.

It is not practicable to quantify the price risk to our business, owing to variability in how fees are charged.

***Interest rate risk***
Interest rate risk is the risk of financial loss as a result of an increase in interest rates on borrowings.

Sensitivity analysis has not been performed on the Group as the Group's only interest-bearing instrument is at a fixed rate until maturity. As such, a 10% movement in interest rates would have no impact on the financial statements.

***Foreign exchange risk***
Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group has minimal exposure to foreign exchange risk, operating as it does in stable currencies – namely Sterling, US dollar, and the Euro

The Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

The effect of a 5% strengthening of the US dollar against Sterling, based on 2021 figures, would have increased the US division's overall profit as recognised in the Statement of Comprehensive Income by £208,987. A 5% weakening of the US dollar, conversely, would have decreased the profit contribution by £199,035.

*Assessment of exposure to foreign exchange risk*
Individual Group companies infrequently enter into transactions denominated in a currency other than their functional currencies, and these are typically immaterial in value. The primary risk is foreign currency rates will move adversely, reducing on consolidation the carrying value of financial assets or increasing the financial liabilities recognised by the US division. The Group does not consider this risk to be material.

**28 Business combinations**

**1. Acquisition of Metnor Holdings Ltd**

On 31 December 2021, the Company completed the acquisition of Metnor Holdings Ltd and its subsidiaries (IBOSS Asset Management Limited and Novus Financial Services Limited, a high quality Investment Management business which operates from headquarters in Harrogate, Yorkshire. IBOSS is a leading provider of Managed Portfolio Services (MPS) and other investment solutions on both an advisory and discretionary basis to UK independent financial advisers. IBOSS has developed a leading service proposition, as recognised by a five-star rating in the FT Adviser service awards and an enviable, long term track record of high performance with low volatility. Novus is a reputable regional IFA meeting the needs of clients based largely in the North of England.

**28 Business combinations**

The business was acquired for a cash consideration of £16.0 million. plus any excess cash held by the business on completion, payable over a 2-year period. £9.6m was paid at closing and the £6.4 million will be paid on a deferred basis - £3.2m of which is contingent, subject to IBOSS meeting pre-agreed EBITDA hurdles over a 2-year year period. The final deferred payments are due in Q1 2024. An additional growth earn-out deferred consideration exists (£12.8 million), payable over the 3-year period subject to achievement of an excess EBITDA target over that period.

On an underlying basis to the twelve months to 31 October 2021 the IBOSS Group delivered EBITDA of £1.331 million through strong and consistent revenue growth and a keen focus on driving high levels of recurring revenue. IBOSS had total assets of £1.4 billion at 31 December 2021.

Initial consideration of £9.6 million was funded by the issue of new convertible preference shares, under the terms of the Company’s convertible preference Share subscription agreement with HSQ Investment Limited, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street.

Details of the fair value of identifiable assets and liabilities acquired, the purchase consideration and goodwill are as follows. Provisional accounting has been adopted, subject to finalising completion accounts in 2022:

| | Book value | Adjustment | Fair value |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Property, plant and equipment | 13 | - | 13 |
| Goodwill & Intangibles | - | 9,044 | 9,044 |
| Investments in subsidiaries | 1,948 | (1,948) | - |
| Receivables | 1,179 | - | 1,179 |
| Cash | 1,532 | - | 1,532 |
| Payables | (1,570) | - | (1,570) |
| Taxation | - | - | - |
| Deferred tax liability | - | (1,718) | (1,718) |
| Total identifiable net assets | 3,102 | 5,378 | 8,480 |

The trade and other receivables were recognised at fair value, being the gross contractual amounts.

***Fair value of consideration paid***

The acquisition has been accounted for using the acquisition method and details of the purchase consideration are as follows:

| | £'000 |
|---|---|
| Initial cash paid | 10,598 |
| Deferred consideration | 5,288 |
| Growth Earn-Out | 9,490 |
| Total purchase consideration | 25,376 |
| Goodwill recognised on acquisition | 16,896 |

**28 Business combinations**

The main factors leading to the recognition of goodwill are:

- the strategic foothold the Metnor team and business gives the Company in the Yorkshire market; and
- the ability to leverage the Metnor platform and achieve economies of scale.

***Revenue and profit contribution***

From the acquisition date to 30 April 2022, the IBOSS Group has contributed £1.156 million to Group revenues and £0.422 million to Group profit before tax.

| ***Net cash outflow arising on acquisition:*** | **Cash outflows** |
|---|---|
| | **£'000** |
| Total purchase consideration | 25,376 |
| Less: | |
| Deferred consideration | (14,778) |
| Cash paid to acquire Metnor Holdings | 10,598 |
| Less: cash held by Metnor Holdings | (1,532) |
| Net cash outflow | 9,066 |

**2. Acquisition of Money Matters**

On 30 November 2021, the Company completed the acquisition of Money Matters (North East) Ltd, a high-quality IFA business which operates from Redcar, North Yorkshire.

MMNE Limited is an independent financial adviser firm and they advise on all aspects of personal financial planning with clients that range from private individuals to small/medium sized businesses. MMNE employs 13 people, including three financial advisers, managing c.£115m AUA on behalf of c.600 active clients. In the year to 31 March 2021, MMNE generated profit before tax of £425k and had net assets of £499k as at that date.

The business will be acquired for total cash consideration of up to £3.4m, plus any excess cash held by the business on completion, payable over a two year period. £1.7m was paid at closing and the balance paid on a deferred basis, some of which is subject to the achievement of pre-agreed performance targets.

The acquisition was funded by the issue of new convertible preference shares, under the terms of the Company's convertible preference Share subscription agreement with HSQ Investment Limited, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street.

**28 Business combinations**

Details of the fair value of identifiable assets and liabilities acquired, the purchase consideration and goodwill are as follows. Provisional accounting has been adopted, subject to finalising completion accounts in 2022:

| | Book value | Adjustment | Fair value |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Property, plant and equipment | 116 | - | 116 |
| Goodwill and intangibles | - | 2,478 | 2,478 |
| Investment | 10 | - | 10 |
| Receivables | 139 | - | 139 |
| Cash | 693 | - | 693 |
| Payables | (89) | - | (89) |
| Taxation | (87) | - | (87) |
| Deferred tax liability | - | (471) | (471) |
| Total identifiable net assets | 782 | 2,007 | 2,789 |

The trade and other receivables were recognised at fair value, being the gross contractual amounts.

***Fair value of consideration paid***

The acquisition has been accounted for using the acquisition method and details of the purchase consideration are as follows:

| | £'000 |
|---|---|
| Initial cash paid | 2,299 |
| Deferred cash consideration | 1,410 |
| Total purchase consideration | 3,709 |

| | |
|---|---|
| Goodwill recognised on acquisition | 920 |

Acquisition costs have been recognised as transaction costs under acquisition-related adjustments in the Consolidated Statement of Comprehensive Income.

The main factors leading to the recognition of goodwill are:

- the strategic foothold Money Matters team and business gives the Company in the Yorkshire market; and
- the ability to leverage Money Matters platform and achieve economies of scale.

***Revenue and profit contribution***

From the acquisition date to 30 April 2022, Money Matters has contributed £579,200 to Group revenues and £284,500 to Group profit before tax.

**28 Business combinations**

***Net cash outflow arising on acquisition:***

| | **£'000** |
|---|---|
| Total purchase consideration | 3,709 |
| Less: | |
| Deferred consideration | (1,410) |
| Initial cash paid to acquire Money Matters | 2,299 |
| Less: cash held by Money Matters | (693) |
| Net cash outflow | 1,606 |

**3. Acquisition of Admiral**

On 18 August 2021, the Company completed the acquisition of Admiral Wealth Management, a North Lincolnshire based Chartered Financial Planning firm, consolidating, and adding scale to its existing presence across North Lincolnshire and Yorkshire.

Admiral provides independent financial advice to individuals and corporates primarily in Lincolnshire and Yorkshire. It currently employs 7 people, including 2 advisers managing c.£100 million AuA on behalf of c.600 active clients.

Admiral will be acquired for a cash consideration of £4.0 million, plus any excess cash held by the business on completion, payable over a 2-year period. £2.0 million was paid at completion and the balance will be paid on a deferred basis. Admiral have the option to request the deferred consideration be paid in either cash or in ordinary shares of Kingswood Holdings Ltd.

In the twelve months to 31 January 2021 it delivered EBITDA of £0.66 million through strong and consistent revenue delivery and a keen focus on driving high levels of recurring revenue. As of 31 January 2021 it had total assets of £103k and net assets of £41k.

The acquisition was funded by the issue of new convertible preference shares, under the terms of the Company’s convertible preference Share subscription agreement with HSQ Investment Limited, a wholly owned indirect subsidiary of funds managed and/or advised by Pollen Street.

**28 Business combinations**

Details of the fair value of identifiable assets and liabilities acquired, the purchase consideration and goodwill are as follows. Provisional accounting has been adopted, subject to finalising completion accounts in 2022:

| | Book value £'000 | Adjustment £'000 | Fair value £'000 |
|---|---|---|---|
| Property, plant and equipment | 18 | - | 18 |
| Goodwill and intangibles | - | 2,364 | 2,364 |
| Receivables | 56 | - | 56 |
| Cash | 478 | - | 478 |
| Payables | (175) | - | (175) |
| Deferred tax liability | - | (449) | (449) |
| Total identifiable net assets | 377 | 1,915 | 2,292 |

The trade and other receivables were recognised at fair value, being the gross contractual amounts.

***Fair value of consideration paid***

The acquisition has been accounted for using the acquisition method and details of the purchase consideration are as follows:

| | £'000 |
|---|---|
| Initial cash paid | 2,244 |
| Deferred consideration | 1,653 |
| Total purchase consideration | 3,897 |
| Goodwill recognised on acquisition | 1,605 |

The main factors leading to the recognition of goodwill are:

- the strategic foothold the Admiral team and business gives the Company in the Lincolnshire and Yorkshire market; and
- the ability to leverage the Admiral platform and achieve economies of scale.

***Revenue and profit contribution***

From the acquisition date to 30 April 2022, Admiral has contributed £874,000 to Group revenues and £586,600 to Group profit before tax.

## 28 Business combinations

***Net cash outflow arising on acquisition:***

| | £'000 |
|---|---|
| Total purchase consideration | 3,896 |
| Less:<br>Deferred consideration | (1,652) |
| Cash paid to acquire Admiral | 2,244 |
| Less: cash held by Admiral | (478) |
| Net cash outflow | 1,766 |

## 29 Related party transactions

**Remuneration of key management personnel**

The remuneration of the Directors, who are 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.

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Short-term employee benefits | 340 | 898 |
| Share based payments | - | 68 |
| | 340 | 966 |

**Other related parties**

KHL incurred fees of £137,500 (2020: £125,000) from KPI (Nominees) Limited in relation to Non-Executive Director remuneration. At 31 December 2021, £nil of these fees remained unpaid (2020: £125,000).

Fees received from Moor Park Capital Partners LLP, in which Gary Wilder and Jonathan Massing hold a beneficial interest through one of the members, KPI (Nominees) Limited, relating to property related services provided by KHL totalled £23,090 for the year ended 31 December 2021 (2020: £20,000), of which £nil (2020: £nil) was outstanding at 31 December 2021.

Fees paid for financial and due diligence services to Kingswood LLP and Kingswood Corporate Finance Limited, in which Gary Wilder and Jonathan Massing hold a beneficial interest as LLP members, totalled £384,750 for the year to 31 December 2021 (2020: £184,426).

### 30 Capital management

The Group considers all of its equity to be capital, and sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt, if any exists.

The primary objective of the Group's capital management plan is to ensure that it maintains a strong capital structure in order to protect clients' interests, meet regulatory requirements, protect creditors' interests, support the development of its business and maximise shareholder value. Each subsidiary manages its own capital, to maintain regulatory solvency. Details of the management of this risk can be found in the Strategic Report.

The Group's capital management policy is, for each subsidiary, to hold the higher of:

- the capital required by any relevant supervisory body; or
- the capital required based on each subsidiary's internal assessment.

The following entities are subject to regulatory supervision and must comply with capital adequacy rules and regulations:

| **Entity** | **Regulatory body and jurisdiction** |
|---|---|
| KW Investment Management Limited | FCA Investment Firm |
| KW Investment Management Limited | FSCA South Africa: Financial Services Provider |
| KW Wealth Planning Limited | FCA Personal Investment Firm |
| STP Wealth Management Limited | FCA Personal Investment Firm |
| Sterling Trust (York) Limited | FCA Personal Investment Firm |
| Sterling Trust Professional Limited | FCA Personal Investment Firm |
| Sterling Trust Professional (North East) Limited | FCA Personal Investment Firm |
| Sterling Trust Professional (Sheffield) Limited | FCA Personal Investment Firm |
| Regency Investment Services Limited | FCA Personal Investment Firm |
| Admiral Wealth Management Limited | FCA Personal Investment Firm |
| Money Matters (North East) Limited | FCA Personal Investment Firm |
| IBOSS Asset Management | FCA Investment Firm |
| Novus Financial Services Limited | FCA Personal Investment Firm (De-registered on 8 March 2022) |
| Benchmark Investments, Inc | FINRA-regulated brokerage firm (USA) |
| Kingswood Capital Partners, LLC | FINRA-regulated brokerage firm (USA) |
| Benchmark Advisory Services, LLC | SEC-regulated advisory firm (USA) |
| Kingswood Wealth Advisors, LLC | SEC-regulated advisory firm (USA) |

The regulatory capital requirements of companies within the Group, and the associated solvency of the Group, are assessed and monitored by the Board of Directors. Ultimate responsibility for an individual company's regulatory capital lies with the relevant subsidiary Board. There has been no material change in the level of capital requirements of individual companies during the year, nor in the Group's management of capital. All regulated entities exceeded the minimum solvency requirements at the reporting date and during the year.

### 30 Capital management

The debt-to-equity ratios at 31 December 2021 and 31 December 2020 were as follows:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Loans and borrowings | 388 | 255 |
| Lease liabilities | 3,274 | 3,234 |
| Less: cash and cash equivalents | (42,933) | (3,899) |
| Net debt | - | - |
| Total equity | 76,898 | 50,512 |
| Debt to equity ratio (%) | 0% | 0% |

### 31 Financial commitments

Subject to conditions being met, Kingswood Holdings Limited has committed to contribute £5.9m (US$8.0m) of additional growth equity to the Kingswood US Holdings Inc group before 31 December 2022 to further build US distribution channels through active adviser recruitment and acquisitions.

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Commitments | 5,936 | 5,861 |

### 32 Ultimate controlling party

As at the date of approving the financial statements, the ultimate controlling party of the Group was KPI (Nominees) Limited.

### 33 Events after the reporting date

Several acquisitions have taken place since the 2021 year end. At the date of authorising these financial statements the initial accounting for the business combinations listed below was incomplete. It has not been possible therefore to finalise the value of the assets acquired and liabilities – contingent or otherwise – assumed, nor, therefore, the value and composition of goodwill.

**Acquisition of D.J. Cooke (Life & Pensions) Limited**

On 26th January 2022, Kingswood Holdings Limited agreed to acquire, the business assets of DJ Cooke Financial Planning Limited, an independent financial planning business, servicing clients across South Yorkshire.

DJ Cooke Limited was a long-established independent financial advice firm specialising in retirement and investment planning. David Cooke, CEO, was the sole adviser looking after c.340 client households with around £70m AuA. On an underlying basis for the 12 month period up to the end of December 2021, D J Cooke Limited generated unaudited revenue of approximately £474k and unaudited EBITDA of approximately £227k.

Following Completion, around £1.5m is payable over a 2 year period. £749k will be paid at closing and the balance paid on a deferred basis, some of which is subject to the achievement of pre-agreed performance targets.

**Acquisition of Allotts Financial Services Limited**

On 1st February 2022, Kingswood Holdings Limited agreed to acquire, the business assets of Allotts Financial Services Limited ("AFS"). AFS was a high quality, long established financial advisory firm based in Rotherham and serves clients covering primarily in South Yorkshire. Set up in 1998, AFS provided independent financial advice to over 400 active clients and employs three advisers, with five support staff covering clients primarily in South Yorkshire with approximately £140m AUA.

In the year ended 31 March 2021, AFS generated revenue of £791k and profit before tax of £355k. Following regulatory approval, the business was acquired for total cash consideration of up to £2.5m, payable over a two year period, £1.25m will be paid at closing and the balance paid on a deferred basis, some of which is subject to the achievement of pre-agreed performance targets.

**Acquisition of Joseph R Lamb Independent Financial Advisers Ltd**

On 7th February 2022, Kingswood Holdings Limited exchanged and completed on an acquisition of Joseph R Lamb Independent Financial Advisers Ltd (“Joseph Lamb”). Established in 1970, Joseph Lamb provided financial advice to over 1930 active clients and employs seven advisers, with eighteen support staff covering clients primarily in Essex with approximately £393m AUA.

On an underlying basis for the 12 month period to 30 June 2021, Joseph Lamb generated revenue of £3.8m and EBITDA of £1.545m. Following regulatory approval, the business was acquired for total cash consideration of up to £15.3m, payable over a two year period, £7.65m will be paid at closing and the balance paid on a deferred basis, some of which is subject to the achievement of pre-agreed performance targets.

**Acquisition of Aim Independent Limited**

On 16th February 2022, Kingswood Holdings Limited exchanged and completed on an acquisition of Aim Independent Limited (”Aim”) an independent financial advice business based in Eastleigh serving clients throughout Hampshire. Aim provide financial advice to over 750 clients. Alongside Phil Watson and Andy Davies, they have three other advisers and six support colleagues looking after clients mainly based in Hampshire, holding around £217m AUM/A.

**33 Events after the reporting date**

In the year ending 31 July 2021, Aim generated revenue of £1.2m and profit before tax of £479k. Following regulatory approval, the business was acquired for total cash consideration of up to £3.6m, payable over a two-year period, £1.8m will be paid at closing and the balance paid on a deferred basis.

**Acquisition of Vincent & Co Ltd**

On 12th May 2022, Kingswood Holdings Limited exchanged on the acquisition of Vincent & Co Ltd, a privately owned independent financial adviser firm based near Market Rasen in Lincolnshire.
The acquisition is subject to regulatory approval. Vincent & Co, ran by Mark Vincent, provides financial advice to over 130 clients in the Lincolnshire area. They hold £25m AuA and in the year ending 31 October 2021 generated revenue of £135k, and profit before tax of £83k.

Following regulatory approval, the business will be acquired for total cash consideration of up to £421k, payable over a two-year period, £211k will be paid upon completion of the transaction and the balance paid on a deferred basis.

**Evolution of geopolitical situation**

As a result of recent events in Ukraine we have decided not to take on any further business from Russian clients. The Wealth and Asset Management and Investment Banking businesses will not accept any new Russian clients. We will continue to comply fully with the expanding list of sanctions arising from this conflict. Overall, the direct impact of this geopolitical situation on the Group is very limited as there is limited exposure in terms of number of clients, assets under management, or revenue.

**Deferred Consideration**

As at 31st December 2021 Kingswood reported a £7.7m Deferred Consideration Payable current liability on the Balance Sheet. This contains amounts due to businesses acquired in 2021 and prior to 2021. At time of writing, Kingswood and the Principals of a business acquired prior to 2021 continue an ongoing dialogue to agree a final Year 3 Contractual EBITDA (for the period ended 31 December 2021) to determine the amount of the Year 3 deferred consideration payment due in 2022.

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