



**KINGSWOOD**

PROTECT AND GROW YOUR WEALTH

**Company Registration No. 42316 (Guernsey)**

**KINGSWOOD HOLDINGS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

## KINGSWOOD AT A GLANCE

Kingswood Holdings Limited (the “Company”) 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).

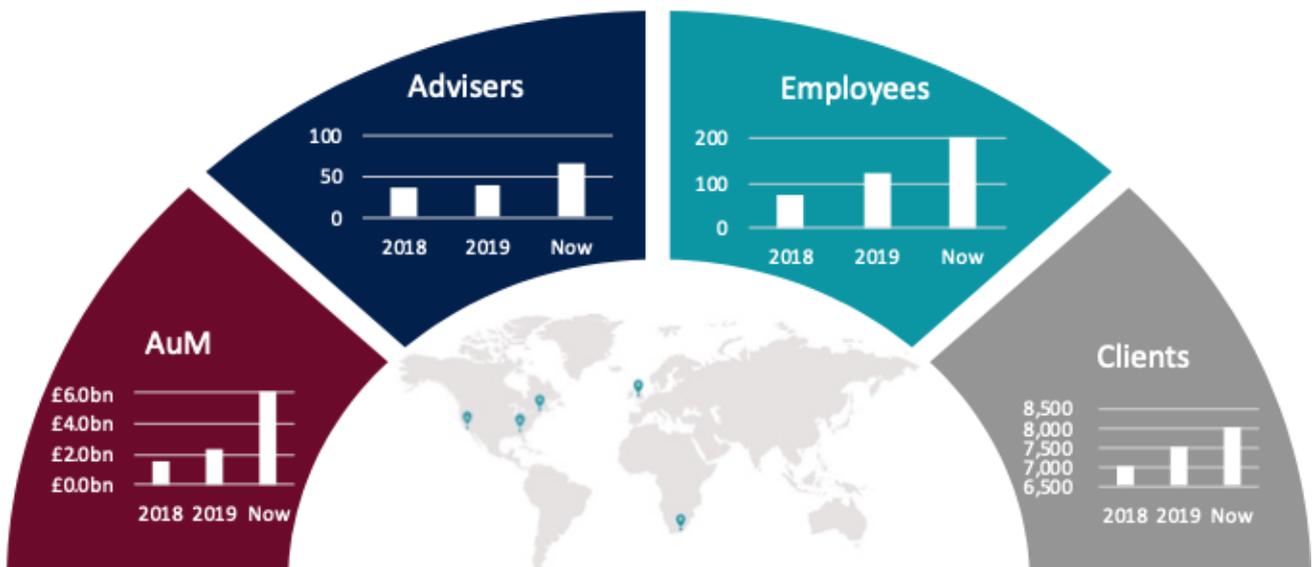
Kingswood offers a suite of wealth planning and investment management solutions to its clients, which range from private individuals to some of the UK’s largest universities and institutions. Kingswood is focussed on becoming a leading participant in its sector through targeted acquisitions in the UK 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.

The Kingswood Board have identified six key components to the Group’s strategy.



The Kingswood Group today comprises:



*Note: adviser and client figures disclosed are for UK-business only*

It has a growing network of offices across the UK including Abingdon, Beverley, Darlington, Derby, Egham, Grimsby, Hull, Lincoln, London, Maidstone, Newcastle, Sheffield (two), Worcester and York along with offices in Johannesburg, South Africa and Atlanta, New York and San Diego in US.

## 2020 HIGHLIGHTS

> Several **key acquisitions** were completed in 2020, **significantly expanding Kingswood's UK and US footprints**

> In the **UK**

- **Sterling Trust was acquired** in June 2020, a transformative transaction which added 22 financial planners advising/managing £1.2 billion of client assets from five locations across Yorkshire and the North East of England
- In November, the Group **acquired Regency Investment Services**, a high-quality IFA business which operates from Egham, Surrey and provides independent financial advice to individuals and corporates with six IFAs advising/managing £320 million on behalf of circa 1,000 clients

> In the **US**

- **Completed the acquisition of Chalice** based in San Diego, CA, USA which provides full-service securities brokerage, advisory and investment banking services to a broad client base
  - Formalised a **strategic partnership** with Mike Nessim and his Manhattan Harbor Capital platform, enabling the **consolidation of Kingswood's US interests** – including Chalice - into a **50.1% share** in a nationwide broker dealer, advisory and investment banking platform re-branded as Kingswood US
  - This investment is a **major statement of intent regarding our US expansion** supported by a commitment to contribute up to \$8.0 million (£5.7 million) additional growth equity before December 2022 to further build US distribution channels
- > Kingswood continued to bolster its management team throughout the year and in December 2020 **appointed David Lawrence as UK CEO** to lead the business on the next stage of its growth journey
- > **£44.8 million growth capital contributed by Pollen Street Capital** to support Kingswood's acquisition and growth initiatives
- > Launch of the **Kingswood Academy**, a 24-month programme to nurture talented people and provide them with the skills needed to provide effective financial advice and **develop a successful career in wealth management**. The first 4 participants joined the academy in January 2021

### Group financial highlights

£'000 (unless otherwise stated)	2020	2019	2018
Total Revenue	25,477	10,053	7,506
Recurring Revenue %	61%	83%	83%
Operating Profit	862	211	(1,597)
Total Equity	50,152	28,201	27,243
AUA/AUM (£ millions)	5,912	2,471	1,649
# of Advisers - UK	64	40	23
# of Authorised Representatives - US	206	-	-

## **CHAIRMAN & GROUP CHIEF EXECUTIVE OFFICER STATEMENT**

### **Dear Shareholders:**

Your continued support over the past challenging year is much appreciated. Thankfully, there is now light at the end of the tunnel with the vaccination programme progressing well, both here in the UK and across the US. We can now begin to put the uncertainty and dislocation behind us and look forward to a brighter 2021 and beyond.

We are truly in awe of the sacrifices made by so many. By our healthcare workers to protect those impacted by COVID-19; by families unable to be with their loved ones in their hour of need; by workers who risked their health to keep essential services operating. We can never truly appreciate their immense sacrifice and the strength in adversity of the human spirit.

It was a difficult year for business, especially one like ours which is built on personal relationships – those one on one, face to face connections between our team and their clients. We all quickly adapted to Zoom or other means of communication, but it is still quite impersonal and makes it especially difficult to build new relationships.

It was also difficult for the Kingswood family, and we learned a lot over the past year about the power of resilience – tackling challenges by staying strong, maintaining belief in our vision and strategy, and focusing on the outcome. It drove the Kingswood family forward every day and we are eternally grateful to every member of the team for their endeavour and commitment in dealing with our clients' affairs in these difficult times. We are a better company for it.

Despite these challenges, there are many positives to take from 2020 - most notably the many talented new colleagues who joined across the UK and US including through the Sterling, Regency, Chalice and Manhattan Harbor transactions. We are delighted that David Lawrence joined us as UK Chief Executive Officer to lead the UK business on the next stage of its growth journey. Patrick Goulding has been an integral leader of our business over the last two years as we built a foundation for growth, and the Board is pleased he agreed to assume the Group Chief Financial Officer role on a full-time basis with the Kingswood business now of a size and scale that requires his full-time efforts in this critical function.

The UK wealth management sector continues to exhibit strong, long-term growth characteristics supported by demographic trends, a complex regulatory environment, and the ongoing consolidation within a very fragmented industry and Kingswood is actively seeking to take advantage of this through its acquisition strategy. We can offer a seamless transition process, centralised support services (like HR, compliance, and finance), and a central investment proposition that frees advisers of the acquired firm to focus on their clients. We are pleased to have developed and grown our UK platform in recent years with the acquisition of five financial planning businesses across the UK since 2018, including the acquisition of Sterling Trust and Regency Investment Services in 2020.

In the UK, Kingswood now has 64 financial advisers and investment managers operating across the country supporting our retail and institutional client base and are projected to deliver strong, sustainable EBITDA on an annual basis once acquisitions are fully integrated.

As the largest global wealth management market, the Board also sees the US as a major growth opportunity and a market where we can differentiate ourselves from our peers. The market is still significantly growing year on year, with 9% compound historical annual growth. We have therefore been keen to expand in that market for some time. In Mike Nessim, we have identified a quality partner with shared values to help implement and drive our US growth strategy. We have no doubt the capital we deploy will drive exceptional organic growth across the Kingswood US platform and reflects the desire of both parties to develop a highly accretive global platform providing clients access to investment products and services in major US and UK markets.

This enhanced US investment will further cement a key, strategic foothold in the largest global wealth and investment management market, differentiate us from our peers and support our aspirations of asset linking and cross-selling services. Mike and his team will oversee acquired entities and focus on delivering Kingswood US's full-service brokerage, investment advisory and investment banking proposition to clients.

Our partnership with Pollen Street Capital grows in strength on many levels, and to date has provided growth equity of £44.8 million to support our strategy. We now have 206 people across the globe advising/managing £6.1 billion of client assets - all achieved during a global pandemic. We have come together by staying apart and are now ready to embark with renewed vigour on our forward journey.

We hope you enjoy reading our annual report and hearing from our business leaders. Thank you for your continued support and trust.

**Kenneth 'Buzz' West**  
**Chairman**

**Gary Wilder**  
**Group Chief Executive Officer**

**June 2021**

# UK CHIEF EXECUTIVE OFFICER REVIEW

## Introduction

It has now been six months since I joined the Kingswood Group to lead the UK business and I am relishing every moment. I'd like to firstly thank Patrick Goulding for his leadership of the business over the last two years and for his and the Kingswood team's efforts in creating such a solid foundation for future business growth. I look forward to building on this foundation and driving the next phase of Kingswood's growth both organically and through further acquisitions.

COVID-19 has meant that 2020 tested our resilience on so many levels, though I am delighted to see how colleagues at Kingswood responded to this including how they adapted their ways of working to ensure that our clients continue to receive a high-quality service. This client focus is an inherent strength of Kingswood and something that I am keen to build on.

It was pleasing to complete the acquisitions of Sterling Trust and Regency Investments in 2020. The UK retail business now operates from four regional hubs and 11 branch offices and has 61 financial planners and investment managers serving circa 8,000 active clients with £3.4 billion of retail Assets under Advice and Management. This regional network and client base are the building blocks of our future success.

We continued to build scale in our retail discretionary investment propositions where we are creating a strong track record. Additionally, we also launched our first investment product - Kingswood Defensive Alpha - a fund of funds investing in liquid, diversified, alternative investments that provides private clients access to hedge fund strategies typically only available to institutional investors.

We also continue to work with some of the UK's largest universities and institutions through our Fixed Income business where 3 investment managers deliver growth using our focussed offering that has gained strong traction in this highly competitive institutional sector. This year we are very pleased to have launched the ESG Bond Fund, one of the few short-dated, Sterling only, investment grade ESG funds that is actively managed in the market.

## 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 fragmented sector.

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 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 many 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.

I believe that successful firms will not only truly put the client at the heart of the relationship, but will also be highly accessible, have clear propositions and most importantly provide great value for money. This also requires firms to have higher levels of transparency than may have previously been the case.

Creating a frictionless client experience is also key when accessing advice or investments. At Kingswood we are looking to re-imagine the client experience, removing blockers and inefficiencies and progressively deploying technology to support this. These principles will become a cornerstone of our client proposition strategy.

Consolidation within the sector continues to gather pace and this provides a great opportunity for Kingswood to acquire firms that create a good strategic fit. A significant number of financial advisers are at or close to retirement age and looking to exit. In addition, the speed and scale of regulatory change is proving highly disruptive and professional indemnity insurance is increasingly problematic. This has led to a major aggregating opportunity, and after a lull in the latter part of 2020 due to COVID-19, deal activity across the UK wealth sector has increased considerably in recent months with a continued influx of private equity capital amid the accelerating pace of consolidation.

Kingswood has completed five strategic acquisitions over the last two years and continues to seek opportunities to create fully operational regional 'hubs' in geographies where we are not currently present and smaller acquisitions to complement an existing presence. There are over 2,750 firms across UK with 2-50 advisers representing potential targets.

We have a flexible acquisition model that can be tailored to the opportunity, though cultural fit is a critical consideration, closely followed by the target business sharing our hunger and passion for the client, having a synergistic proposition and importantly sharing our ambition for growth.

## Our core propositions

Our goal for retail clients is to provide an integrated wealth management service that combines deep expertise across financial advice and planning with equally deep knowledge and experience in investment management.

## UK CHIEF EXECUTIVE OFFICER REVIEW

We 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 advice proposition is best described as Restricted Whole of Market. This means that we maintain a core central investment proposition that we believe will be suitable for most clients but also provide other investment choices where it isn't. For non-investment and more specialist client needs, we maintain a whole of market approach.

Our retail investment proposition is discretionary and comprises a set of risk rated core model portfolios. Complementary models are also available such as ESG and/or income variants. These solutions are available on most of the recognised third-party platforms. For the more sophisticated investor we offer a more personalised approach, also including an investment manager where appropriate. Our portfolios are delivering increasingly strong investment performance versus ARC and risk benchmarks.

### Key performance indicators

£'000 (unless otherwise stated)	2020	2019	2018
Total Revenue	17,155	10,053	7,506
Recurring Revenue %	84%	83%	83%
Operating Profit	319	211	(1,597)
Total Equity	47,897	28,201	27,243
AUA/AUM (£ millions)	4,378	2,471	1,649
# of Advisers	64	40	23

The Group CFO review discusses financial performance in further detail but total revenue for the year was £17.2 million, a 71% increase on the prior year reflecting the impact of recent acquisitions. 84% 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.

The UK business has developed and grown in recent years with the acquisition of five financial planning businesses since 2018, including the acquisition of Sterling Trust and Regency Investment Services in 2020 and now comprises 185 employees with teams operating from four regional and 11 branch offices across the UK. On a pro-forma basis, the UK business is projected to deliver strong, sustainable EBITDA on an annual basis once acquisitions are fully integrated with our discretionary investment management offering.

### Delivering growth

Inorganic opportunities create additive scale, though it is through integration and then accelerated growth that we will fully deliver on our ambitions.

We have implemented processes to complete an integration of a typical target firm within three to six months following completion. However, these timescales are agreed on a case-by-case basis with the seller to ensure minimal disruption and client impact.

Organic growth in Revenue, AuM and EBITDA is then a function of firstly creating adviser capacity and then delivering an increase in adviser productivity from increased client demand. One way we will do this is by leveraging our local presence and relationships through our hub and satellite offices.

In the medium term, most of our Investment AuM and Revenue will be derived from wealth planning activity, though over time we aim to broaden our distribution channels.

The team at Kingswood care deeply about their clients and have great expertise. Continuing to apply a focussed approach to acquisitions will create immediate scale. When coupled with our organic growth strategy, an optimal client experience and the strengthening track record of our investment proposition, I am confident that we will deliver sustainable growth in 2021.

I am excited for the future and look forward to working with the UK team to further develop and deliver on our vision and strategy.

**David Lawrence**  
**UK Chief Executive Officer**  
**June 2021**

# US CHIEF EXECUTIVE OFFICER REVIEW

## Introduction

2020 was a transformative year for me and the Manhattan Harbor Capital (MHC) business. I am delighted to have created a long-term partnership with the Kingswood Group, and to now have the strategic and financial backing to deliver the next phase of our ambitious business plan. MHC has been re-named Kingswood US and we now have the capital, team, infrastructure, and technology in place to execute our ambitious US organic growth strategy. I am excited to drive this next stage of our growth journey and I have no doubt the capital we deploy will drive exceptional growth across the Kingswood US platform.

Kingswood US operates in the Independent Broker Dealer (IBD) and Registered Investment Adviser (RIA) market space and comprises businesses across the US with key hubs in Atlanta, New York, and San Diego. In addition, it incorporates Kingswood Capital Markets (KCM), a national Investment Banking platform now supported by significant regulatory capital to leverage our expanding distribution channels and drive growth across equity and debt advisory, capital raising and M&A.

I am the Managing Partner of the enlarged Kingswood US business and we have an exceptionally talented and experienced team to deliver a successful US strategy. This team now comprises 206 Authorised Representatives managing \$2.2 billion of client monies across the US.

## Market overview

Currently, IBDs control ~\$3 trillion in client assets with ~123,000 advisers across the US operating on a mostly self-employed basis. The IBD sector includes firms as large as LPL with close to 17,000 independent financial advisers and ~\$950 billion AUA to small, local IBD firms with less than 20 advisers. Small and medium sized IBDs face many challenges today including an inability to achieve scale, rising regulatory and technology costs and a difficult recruiting environment making it difficult to attract good advisers as large competitors issue upfront cash incentives to attract talent. The independent channel has consequently seen significant consolidation, and we are a significant player in this market.

There are currently over 12,500 RIA firms with between \$10 million and +\$1 billion in AuM. The RIA marketplace is ripe for acquisition with aging ownership and no clear succession plans, rising operational costs and a slow pace of growth. The market is therefore active with pricing in a range of 6 - 8x EBITDA multiples for target firms especially those with strong value drivers such as a high-quality client base or a unique proprietary technology solution.

## Our core propositions

Our FINRA authorized 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 supervised 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 programmes.

KCM continues to experience strong demand for its Investment Banking services with markets very active. We currently have 25 bankers and support staff based in NY, with a goal to increase to over 100 bankers in key locations across the US over the next two years. KCM generates high quality income via securities underwriting and placement, debt arrangement, advisory and M&A leveraging our growing advisor distribution network.

## Key performance indicators

The Kingswood Group progressively increased its investment in MHC (now re-branded Kingswood US) to a 50.1% interest by November 2020, including the contribution of the Chalice businesses which were acquired in May 2020.

On a full year, 100% consolidated basis, Kingswood US delivered a strong 2020 financial result bolstered by strong revenue growth across all activities including broker-dealing, investment advisory and investment banking.

'000 (unless otherwise stated)	\$	£
Total Revenue	35,318	27,513
Gross Profit	6,878	5,358
Operating Profit	2,232	1,739
AUA/AUM (£ millions)	2,071	1,534
# of Authorised Representatives	206	

## Delivering growth

Our core objective is to build a successful, scaled IBD and RIA platform across the US that delivers excellent client service from a best-in-class technology base. We are focused on the movement of clients and their assets towards the fee-based model, providing measurable, annuity-style fee streams. We also believe we can leverage our business through economies of scale as we avail of the consolidation opportunities available across the IBD and RIA landscape.

## **US CHIEF EXECUTIVE OFFICER REVIEW**

Growth will be driven by a number of factors including the recruitment of independent financial advisers dis-located 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.

We have a very active pipeline of organic and inorganic growth opportunities across the US. Our efforts are bolstered by Kingswood Group's committed contribution of up to \$8.0 million (£5.7 million) of additional growth equity before 31 December 2022 to further build US distribution channels through active adviser recruitment and acquisitions.

I look forward to working with my Kingswood colleagues to deliver our US strategy.

**Mike Nessim**  
**Kingswood US Chief Executive Officer**  
**June 2021**

# GROUP CHIEF FINANCIAL OFFICER REVIEW

## Introduction

Kingswood has experienced rapid growth and undergone significant change over the past few years to become the global, integrated wealth management business it is today. Within the last two years we have completed five acquisitions of UK financial advisory businesses, in addition to the creation of a significant US presence through acquisition and organic growth. On a global basis, Kingswood now has client assets under advice/management of £6.1 billion and continues to focus on taking advantage of consolidation opportunities in the UK and US wealth management sectors to build a larger, scaled business.

The overall performance of the business in 2020 was impacted by the challenging conditions COVID-19 presented. Continued restrictions prevented us fully engaging with existing and potential clients, but with conditions improving as the vaccination programme escalates we remain confident of the opportunity for growth this year and beyond.

## Positioned for growth

A solid foundation is now in place and considerable work has been completed over the last couple of years to ensure we have the right infrastructure and cost framework to support growth. We are finalising the implementation of our change management programme to improve the Group's cost/income ratio and enhance margins.

Our ambition is supported by growth equity provided by Pollen Street Capital (Pollen Street). We are also keenly focused on driving organic growth from acquired firms, in addition to the enhancement of our investment management capability which should drive future incremental revenue. Our US presence is already taking advantage of the consolidation opportunities there, which should deliver an attractive return on capital.

In 2021 we are very focused on revenue enhancement and synergies as we integrate acquired firms and drive costs by centralising support services. Our greater scale enables previously independent firms deliver enhanced client service, which will support organic growth and the opportunity to drive additional revenue from clients through enhanced financial advice or from our expanded range of investment management solutions. Notwithstanding the lingering impact of COVID-19, this should put us in a strong position to deliver enhanced financial performance from an up-scaled business.

## Balance sheet strength

Funds managed by Pollen Street can subscribe for up to £80.0m of capital through a convertible preference share structure and we draw on this facility as required to complete acquisitions, putting us in a strong position when negotiating potential transactions. The preference shares are convertible into ordinary shares at 16.5p in December 2023, or earlier under certain conditions. The value sharing between Pollen Street and Kingswood strongly aligns interests. In addition, the Pollen Street board members bring significant experience and expertise to the execution of our strategy.

£44.8 million of this facility has been drawn to date and on 31 December 2020 the Group had no debt. Deferred liabilities of £4.1 million represent deferred consideration obligations on acquisitions, payable subject to underlying businesses meeting certain performance conditions.

Kingswood is well capitalised today but remains focused on maintaining capital flexibility and balance within our funding structure. We have a pipeline of circa £200 million in UK and numerous possible targets in the US and feel there is a significant opportunity to deploy additional capital in the future.

We target minimum returns on investment of 20% post integration into the Group. The combination of revenue synergies, centralising key support functions and ensuring cost efficiency within the acquired businesses, enables us to drive an enhanced return on invested capital. This takes time to be reflected in overall Group results but highlights the potential for the Kingswood Group going forward.

## Application of accounting standards

Kingswood continues to balance the requirement to meet all relevant technical accounting standards with the need to provide shareholders with a clear, commercial view of underlying business performance. This is a particular challenge for a company which is actively growing its business through acquisitions where accounting for acquisitions and related costs under IFRS 3 requires Kingswood to treat certain items differently to the underlying commercial aspects of the business or transaction.

Kingswood commercially requires the principals of acquired businesses to remain with the business during the agreed earn out period to ensure there is an alignment of interest between both parties. To the extent principals leave prior to the end of the earn out period, this would result in them forgoing any deferred payments due, notwithstanding whether agreed financial metrics for the earn out have been met.

IFRS 3 currently dictates any deferred payments subject to contingent employment are treated as remuneration and expensed as paid as opposed to being capitalised as consideration paid for the acquired business.

In 2020 Kingswood therefore changed its existing accounting treatment regarding deferred consideration on acquisitions, and now treats such contingent deferred payments as 'remuneration' when paid, rather than capitalise into the value of the acquisition at completion. This results in the statutory financial statements delivering a result that is different to the underlying commercial reality of the acquisition.

For these reasons, Kingswood adopts Operating Profit as a key financial performance metric and believes it provides a fairer reflection of the Group's profitability and underlying asset value. Operating Profit measures underlying business performance

## GROUP CHIEF FINANCIAL OFFICER REVIEW

and removes the impact of amortisation and depreciation, business re-positioning costs and acquisition related accounting treatments.

### Financial performance

The business is in a financially strong position and our large, existing client base proved highly resilient delivering robust cash flows.

Year on year performance comparison is difficult given the impact of acquisitions during the year. In the UK, two acquisitions were completed in 2020, and in the US we acquired the Chalice businesses and further invested in the Manhattan Harbor Capital platform culminating in the Kingswood Group holding a 50.1% interest in the expanded and rebranded Kingswood US in November 2020. Given we now hold a controlling interest in the US business, from mid-November 2020 we have consolidated the financial performance of Kingswood US into our Group results.

£'000 (unless otherwise stated)	UK	US	Group
Total Revenue	17,155	8,322	<b>25,477</b>
Recurring Revenue %	84%	12%	61%
Operating Profit	319	543	<b>862</b>
Total Equity	47,897	2,255	<b>50,152</b>
AUA/AUM (£ millions)	4,378	1,534	<b>5,912</b>
# of Advisers/Authorised Representatives	64	206	<b>270</b>

In the UK, total revenue for the year was £17.2 million, a 71% increase on the prior year reflecting the impact of recent acquisitions. 84% 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.

The US business delivered strong performance, largely driven by its active investment banking business which continues to provide advisory and underwriting support to its expanding client basis. A total of 28 transactions were completed in 2020, with 18 closed in the final quarter of the year.

We have progressively expanded our US interests as we become more familiar with the market and put in a place a best in class infrastructure and management team. Our initial move into the US was in May 2019, with the acquisition of an initial 7% interest in Manhattan Harbor Capital (MHC), a holding company that acquires, consolidates and manages IBDs and RIAs across the US. A further step was made in May 2020 with the acquisition of Chalice Capital Partners and Chalice Wealth Advisors which provide full-service securities brokerage, advisory and investment banking services to a range of individuals and corporate clients.

The next stage was completed in November 2020 and saw Kingswood consolidate its US investments into a 50.1% interest in MHC which has been rebranded Kingswood US, with the intention to contribute up to US\$8m of additional growth equity to build out the US distribution channels through adviser recruitment and acquisitions. This would take the total investment to circa US\$15m.

Kingswood also continues to expand its investment banking operation, Kingswood Capital Markets (KCM). KCM is a full-service investment bank that provides companies with access to capital necessary to build thriving and profitable enterprises and has well-established relationships that provide a steady stream of deal flow which they then match with their global investor base. This access to transcontinental capital is a strong differentiator that sets KCM apart from its peers.

Group Operating Profit for the year was £0.9 million, an improvement of £0.7 million over 2019, while also noting 2020 performance does not reflect a full year profitability impact from Sterling Trust, Regency Investment Services and the acquisition in the US of the Chalice businesses which were completed during the year.

### M&A activity

We are pleased with the progress made in expanding the Kingswood network in the UK and US, with five regional businesses acquired in the UK over the last 2 years, in addition to the progressive increase since May 2019 of our US interests which are now combined within Kingswood US.

We have strong private equity 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.

## GROUP CHIEF FINANCIAL OFFICER REVIEW

Financially, we assess businesses on strict performance parameters, with a focus not just on revenue and profit measures but also on Assets under Advice and Management (AuA/M) and Return on Capital Employed (ROCE). We seek to identify opportunities to enhance the revenue yield on AuA/M by providing enhanced services to clients. Post-acquisition, we benchmark quarterly performance against these metrics and adjust strategy and implementation accordingly.

The table below summarises UK acquisitions completed to date. The average multiple paid is 6.8x EBITDA, or 1.9% of AuM/AuA.

Date	Acquisition	Price	AUM/A	P/AUM	Advisers	Current Annual Operating Profit	Target Post-Synergy Operating Profit	Target ROI
Oct-18	Marchant McKechnie	£4.0m	£200m	2.0%	4	£0.9m	£1.1m	28%
Feb-19	Thomas & Co	£3.3m	£150m	2.2%	4	£0.5m	£0.7m	21%
Sep-19	WFI Financial	£14.0m	£550m	2.5%	16	£2.0m	£2.2m	19%
Jun-20	Sterling Trust	£17.8m	£1,200m	1.5%	22	£2.5m	£2.8m	18%
Sep-20	Regency	£3.5m	£320m	1.1%	6	£0.5m	£0.7m	20%
<b>Total</b>		<b>£42.6m</b>	<b>£2,420m</b>	<b>1.8%</b>	<b>52</b>	<b>£6.4m</b>	<b>£7.5m</b>	<b>19%</b>

Source: Internal investment memorandums / external due diligence reports

The US market is financially attractive from an investment perspective given the relatively high returns generated from a low capital commitment. Our intention is to move as many of the broker-dealer assets to the RIA model, which over time will enhance quality of earnings given the recurring fee-based nature of the RIA structure.

### Peel Hunt

In April 2020 we were pleased to appoint Peel Hunt as our Nominated Adviser (Nomad) and broker as we continue our growth journey. Peel Hunt are market leading in the UK mid and small cap sector, providing Kingswood with expanded access to investors as we seek to strengthen and deep our institutional investor base.

### Looking forward

We have an active transaction pipeline in UK and US, and a strategy that provides a hedge against UK centric businesses and enhances quality of earnings. Kingswood's financial strategy is to maintain a robust and disciplined balance sheet, underpinned by Pollen Street's growth equity commitment and ensuring no deferred liabilities remain uncovered from a funding perspective, and a disciplined approach to expense management.

The implementation of our change management programme to improve the cost/income ratio and enhance margins is beginning to bear fruit. Our focus is to maximise shareholder returns through EBITDA growth combined with minimising our weighted average cost of capital and closing the current market valuation gap to reflect our true underlying valuation.

**Patrick Goulding**  
**Group Chief Financial Officer**  
**June 2021**

## 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.

Daily, 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
<b><u>Industry Risks</u></b>			
<b>Regulatory Risk</b>	<p>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</p>	<ul style="list-style-type: none"> <li>Professionally staffed compliance department monitoring, interpreting and with business leaders implementing the latest FCA development.</li> <li>A Risk &amp; Compliance Committee is in place and chaired by an independent Non-Executive Director and includes participation by UK CEO, Group CRO, Group CFO and other senior staff</li> <li>A suite of mandatory compliance training modules is in place for all staff</li> </ul>	
<b>Market Risk</b>	<p>The COVID-19 global pandemic is impacting economic and financial markets and volatility 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</p>	<ul style="list-style-type: none"> <li>Broad range of client solutions offered to clients enabling them to protect assets through diversification, and continuing to generate revenues</li> <li>Our Investment Committee closely monitors and manages market movements</li> <li>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</li> </ul>	

## PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Description	Mitigation	Outlook
<b><u>Operational Risks</u></b>			
<b>Operational Resilience</b>	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)	<ul style="list-style-type: none"> <li>Throughout the COVID-19 pandemic, Kingswood has benefited from robust cloud based operating systems allowing staff to seamlessly transition to remote working</li> <li>Core systems are cloud based allowing for ease of remote access</li> <li>The Company continues to invest in improved IT connectivity and leading-edge systems to improve resilience and ensure continued service to clients</li> </ul>	
<b>Suitability of Advice</b>	There is a risk of providing unsuitable advice or a failure to confirm ongoing suitability	<ul style="list-style-type: none"> <li>We maintain a skilled wealth planning workforce, trained to the highest industry standards</li> <li>A professional compliance team provides training, oversight, and ongoing monitoring to ensure that high standards are maintained</li> <li>Senior management provide direct oversight to ensure ongoing suitability of advice to clients</li> </ul>	
<b>Reliance on Third Party Service Providers</b>	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.	<ul style="list-style-type: none"> <li>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 3<sup>rd</sup> party relationships and is continually monitored on an ongoing basis</li> <li>Contracts are in place with clear Service Level Agreements (SLAs) for all key suppliers</li> </ul>	
<b>Business Conduct</b>	The risk of poor business conduct resulting in client outcomes that do not meet their needs and circumstances.	<ul style="list-style-type: none"> <li>Training &amp; Competence programme in place for all client facing staff</li> <li>Kingswood culture is focused on client outcomes</li> <li>Professionally staffed compliance department providing additional oversight</li> </ul>	

## PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Description	Mitigation	Outlook
<b>Operational Risks (continued)</b>			
<b>Data Protection &amp; Cyber Security</b>	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.	<ul style="list-style-type: none"> <li>Continual focus on data security, including penetration testing and 'phishing' exercises.</li> <li>IT security &amp; awareness training regularly conducted for all staff</li> <li>Senior management oversight of IT capability and resilience</li> </ul>	
<b>People Risk</b>	Increasing workloads, key person risk or inability to adequately staff key roles could result in adverse business impact	<ul style="list-style-type: none"> <li>Competitive pay and benefits</li> <li>HR policies and procedures overseen by HR director.</li> <li>Several HR initiatives aimed at improving employing wellbeing.</li> <li>Training and development programme in place to help staff advance their careers.</li> </ul>	
<b>Financial Crime</b>	Risk of Fraud, Money Laundering, Bribery & Corruption, Sanctions, Terrorism Financing, Tax Evasion, Market Abuse, Insider Dealing	<ul style="list-style-type: none"> <li>The Money Laundering Reporting Officer (MLRO) oversees the implementation of financial crime prevention policies and procedures</li> <li>An MLRO report is reviewed annually by the Risk &amp; Compliance Committee. The number of high-risk clients is low</li> <li>An electronic ID verification system is in place for all new clients</li> <li>Awareness of Financial Crime policies &amp; procedures across the Group is maintained through regular training</li> </ul>	
<b>Investment Restrictions</b>	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.	<ul style="list-style-type: none"> <li>Mandate restrictions are well understood by experienced investment management team</li> <li>Pre &amp; Post trade alerts in place</li> <li>Investment Oversight Committee monitors ongoing adherence to portfolio strategies</li> </ul>	

# CORPORATE RESPONSIBILITY STATEMENT

## 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, staff, suppliers and chosen charity partners. Through 2020, we continued as a team, where possible, to participate in volunteer work. We launched a new career development programme - the Kingswood Academy - to nurture talented people and provide them with the skills needed to provide effective financial advice and develop a successful career in wealth management. We also strived to continue to reduce our carbon footprint, whether at the office or working from home.

ESG / CSR has been added as a Board agenda item and for the second year we have initiated a group wide audit on how Kingswood is addressing and responding to ESG issues – this includes not only how we operate as a company but how our actions impact our service offering to clients.

All steps and actions we take as a growing company are moving us in the right direction to be a responsible corporate citizen in the communities in which we operate.

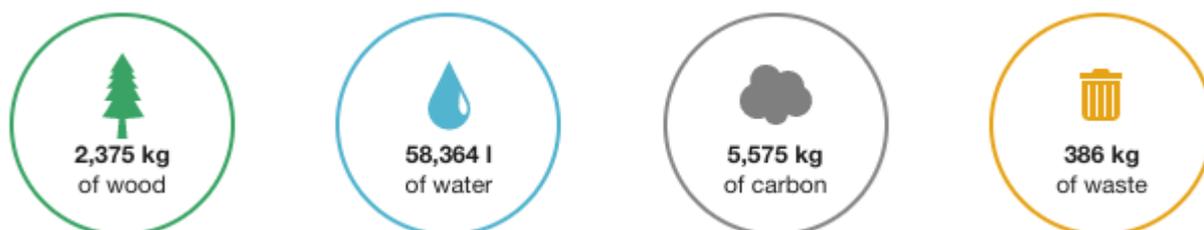
### The environment

The main environmental impacts centre around employee travel to and from the office and the consumption of resources within our offices. To reduce this impact, we offer all staff the opportunity to participate in a cycle to work scheme and a flexible working policy whereby staff can choose to work a portion of their time from home. We have also introduced recycling and compost bins in most offices and encourage minimal printing and consumption of paper. We plan to roll this out to all offices in 2021.

We continue to enhance client communications through the effective use of technology, including the use of DocuSign (an electronic signature system eliminating the need for wet signatures on hard paper copies) and a new online client portal to enable clients to directly access information, eliminating the need to mail paper reports. All these steps are to support our goal of a paperless environment.

We partner with Trees for Life and plant a tree for every client who registers on the portal and goes paperless. Our goal is to have 95% of clients accessing the online portal by June 2022 and simultaneously re-wilding the Scottish Highlands.

In the last 6 months we estimate to have saved at least 2,375 kg of wood, 58,364 litres of water, 5,575 kg of carbon and 386 kg of waste.



### Ethical investments

Within our client proposition we offer clients a suite of ESG portfolios which consider environmental and ethical matters. Our objective is to not only generate financial returns, but to also generate a positive impact on the environment and society. We believe strong corporate governance is imperative to sustainably meet this objective.

To help target the world's salient environmental and societal issues, 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.

In addition, in 2020 we launched the Kingswood ESG Bond Fund, which provides institutional clients access to "ESG responsible" investment solutions.

## CORPORATE RESPONSIBILITY STATEMENT

### 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

In recent years we have partnered with Benefacto.org and grant all staff 2 days per year to volunteer in the community. Unfortunately, during COVID-19, community work couldn't happen but some of our teams volunteered virtually by donating food and old mobile phones to those in need. We have also pledged to donate £25,000 to charity on behalf of staff in lieu of a day's annual leave.

Earlier this year we launched Kingswood Community Week, which will take place in September 2021, when as a firm employees will take a day away from the office apply their experience and skills to make a meaningful and positive contribution to their local communities.

Employees will work alongside colleagues, community partners, family members and suppliers to make a difference. Kingswood Community Week is driven by team members with projects sourced and initiated by staff around the country, giving them the ability to choose where they want to lend a hand and can be most helpful.

Kingswood Community Week will be an annual event and is designed to create shared value by driving community engagement, employee wellbeing and development for the Kingswood team, their families, and the communities we interact with on a day-to-day basis.

### Workplace

We are committed to creating a workplace and culture that is welcoming and inclusive for everyone.

We currently have 206 employees in total across the Group:

- Females – 94 (45.6%)
- Males – 112 (54.4%)

Ages:

- Under 30 – 39 people (18.9%)
- 30 to 50 – 106 people (51.5%)
- Over 50 – 61 people (29.6%)

Diversity and inclusion are a cornerstone of our philosophy and culture and during the year an employee-led Diversity and Inclusion Forum was launched 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.

# GOVERNANCE

## CORPORATE GOVERNANCE STATEMENT

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, Nomination and Remuneration, and Risk & Compliance Committees.

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](http://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 Kenneth 'Buzz' West. The Board considers that the Non-Executive Directors provide a strong and consistent independence to the Executive members. None of the Non-Executive Directors is 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 25 to 26.

During the year ended 31 December 2020, 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 was 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. The Board currently has eight members, with two Executive and six Non-Executive Directors. Kenneth 'Buzz' West, Jonathan Freeman and Robert Suss 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.

# CORPORATE GOVERNANCE STATEMENT

## Board composition

During the year under review, the Board comprised:

- Graydon Butler (Executive Director, resigned 31 December 2020)
- Jonathan Freeman (Non-Executive Director)
- Howard Garland (Non-Executive Director)
- Patrick Goulding (Executive Director, resigned 31 December 2020)
- David Hudd (Executive Director, 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)

The Board has scheduled meetings on a bi-monthly basis. The Board formally met six 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 2020 and individual attendance was as follows:

Director	Board	Audit Committee	Nomination & Remuneration Committee	Risk & Compliance Committee
Graydon Butler	5/6			
Jonathan Freeman	6/6	4/4	2/2	9/9
Howard Garland	6/6			
Patrick Goulding	6/6	4/4		9/9
David Hudd	5/6		1/1	
Jonathan Massing	5/6			
Lindsey McMurray	4/6			
Robert Suss	5/6			
Buzz West	6/6	2/2	1/1	
Gary Wilder	6/6			

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 and Compliance Committees)
- 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; and
- 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.

## CORPORATE GOVERNANCE STATEMENT

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, Nomination and Remuneration and Risk and Compliance 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, Jonathan Freeman (Non-Executive Director) and Howard Garland (Non-Executive Director) sit on each of the operating subsidiary boards, with Jonathan Freeman 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. However, now that the US business is being consolidated into the Group accounts, there will be a separate subsidiary Board which will meet at least quarterly to review and discuss key matters relating to Kingswood's US activities, and include updates from key US executives as necessary.

### Board committees

The Board has established committees including Audit, Nomination and Remuneration and Risk & Compliance, each with separate terms of reference. These are available for viewing at Kingswood's London office and on the Group's website: [www.kingswood-group.com](http://www.kingswood-group.com).

### Audit committee

The Audit Committee is chaired by Jonathan Freeman with Buzz West joining in January 2020 and Jonathan Massing in January 2021. The Audit 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 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.

## CORPORATE GOVERNANCE STATEMENT

### **Nomination and Remuneration committee**

In March 2019, the Board approved combining the then separate Nomination and Remuneration Committees into one Committee. This Committee was chaired by David Hudd until he became an Executive Director in July 2020 at which time Buzz West joined the Nomination and Remuneration Committee as Chairman. Jonathan Freeman is also on the 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.

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 determining 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 were two Nomination and Remuneration Committee meetings held during the financial year ended 31 December 2020.

### **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.

### **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.

## **CORPORATE GOVERNANCE STATEMENT**

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 27) and the Directors' Remuneration Report (page 30).

### **Risk and Compliance committee**

The Board has established a Risk and Compliance Committee comprising an independent Non-Executive Director, senior management and the FCA Compliance Oversight function holder (was CF10, now SMF16 and SMF17). The Committee Chairman is Jonathan Freeman, a Non-Executive Director of the Company. The Committee generally convenes monthly and the Board considers the composition of the Committee appropriate given the size of the Group's business. During the year under review, the Committee formally met 9 times.

The Risk and Compliance Committee is authorised and empowered by the Board to, inter alia, provide oversight and advice to the Board in relation to current and potential risk exposure and future compliance and risk strategy to review the Group's risk profile relative to current and future risk appetite, to monitor risk and make recommendations to the Board concerning all elements of the Group's compliance with the FCA's rules and those of the London Stock Exchange, and to make recommendations to the Board in respect of the Group's risk appetite. The Risk and Compliance Committee also oversees the Group's risk management framework to ensure effective risk identification and management throughout the Group.

Certain subsidiaries in the Group are regulated by the FCA and are always therefore required to maintain adequate regulatory capital. An Internal Capital Adequacy Assessment Process (ICAAP) is used to ensure there is sufficient capital in place to immediately cover risks identified through its risk management framework. The ICAAP is regularly updated and reviewed and approved by the Risk and Compliance Committee and the Board on an annual basis.

In addition, the Group utilises various other means to ensure compliance with the rules and guidelines set by the FCA and that it operates within the appropriate risk limits set by the Board. These include a compliance manual covering significant business and operational activities, policies covering conflicts of interest, insider dealing, market abuse, personal account dealing and client acceptance procedures as well as regular monitoring of market and credit risk. These matters are the subject of regular review by the Risk and Compliance Committee.

### **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](http://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.

## **CORPORATE GOVERNANCE STATEMENT**

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.

The Group has recently launched a Diversity and Inclusion Forum, run by employees, to encourage creative ideas and action to further embed diversity and inclusion as a central tenet of its corporate culture. Kingswood is 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.

## BOARD OF DIRECTORS

### **KENNETH 'BUZZ' WEST**

#### **Non-Executive Chairman**

Buzz is Non-Executive Chairman of the Board, Chairman, and a member of the Audit Committee. He is also Chairman of the Nomination and Remuneration Committee. He is highly experienced in the financial services arena having held numerous Board positions in addition to being Founder and Chairman of the AIM-listed wealth manager Ashcourt Rowan. Buzz sits on the Board of the Toronto listed Auxico Resources Canada Inc. He is currently an advisor to several high-tech companies including the Cyber training and qualification company, Qufaro. With a strong entrepreneurial background, Buzz brings a track record of achieving success for shareholders and as Chairman he led the loss adjustors, GAB Robins, from a management buyout (MBO) to successful trade sale. He uses his experience in both wealth management and the AIM market to lead the Board and drive Kingswood's strategic direction.

Buzz joined the Board in January 2014.

### **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**

#### **Group Chief Executive Officer**

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.

### **DAVID HUDD**

#### **Executive Director, 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 and became an executive director on 1 July 2020.

### **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 is also the senior independent non-executive director of Futura Medical plc.

Jonathan joined the Board in June 2018.

## **BOARD OF DIRECTORS**

### **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 BIK Brokers Group.

Howard joined the Board in December 2019.

### **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 2005 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.

### **ROBERT SUSS**

#### **Non-Executive Director**

Robert Suss is a Non-Executive Director and sits on the Board to advise on wealth management strategy. Robert is the Co-Chief Executive Officer of UK Agricultural Finance, a specialist lender in the UK serving the agricultural community as well as the founder of Global Tower Solutions, focused on delivering renewable solutions globally. Robert Chairs the Advisory Board for EG Capital an Emerging Market Debt Manager and he serves as a director for TPG Pace Holdings and B. Riley Principal Merger Corp. Rob Suss retired from his position as a Managing Director of Goldman Sachs where he spent 18 years building and turning around a number of businesses in their Investment Management Division. His last role was as Head of Private Wealth Management in London from 2012 to 2015.

Robert joined the Board in June 2019.

## 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 2020. The Corporate Governance Statement is set out from page 19 onwards. All financial information given in this Directors' Report is taken solely from the statutory results prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

### 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 3 to 17. The results for the year are set out in the audited Consolidated Statement of Comprehensive Income on page 40. The Directors do not recommend the payment of a dividend for the year ended 31 December 2020 (31 December 2019: £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 25 and 26.

### 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.

KW Investment Management, KW Wealth Planning, Marchant McKechnie Financial Advisers (acquired 1 October 2018), Sterling Trust Financial Consulting Limited (acquired on 25 June 2020) and Regency Investment Services Limited (acquired on 17 November 2020), which were regulated by the FCA at year end, 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 25 to 26. Graydon Butler and Patrick Goulding resigned from the Board on 31 December 2020.

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 2020 had the following beneficial interests in the ordinary shares of the Company as of 31 December 2020:

Name of director	Number of Ordinary Shares held	
	2020	2019
Graydon Butler *	1,050,000	1,050,000
Jonathan Freeman	87,780	60,606
Howard Garland	-	-
Patrick Goulding*	-	-
David Hudd	500,000	-
Lindsey McMurray	-	-
Robert Suss	-	-
Kenneth 'Buzz' West	4,536,076	4,536,076
Gary Wilder and Jonathan Massing**	143,220,906	142,944,905

\* Resigned 31 December 2020

\*\* 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 2021:

Name of shareholder	Percentage of voting rights and issued share capital	No. of ordinary shares
KPI (Nominees) Limited	66.26%	143,720,906
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 has issued 44,828,443 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 on 31 December 2020. The preference shares are convertible into Kingswood Holdings Limited ordinary shares at 16.5p per share on or before 31 December 2023.

### 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.

## DIRECTORS' 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 page 13.

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. This includes an assessment of the COVID-19 pandemic and any potential impact on the Group and its business.

Whilst the outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of our business, the Group is expected to generate positive cash flows on its own account for the foreseeable future. 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 on 16 June 2021.



**Kenneth 'Buzz' West**  
Chairman

## DIRECTORS' REMUNERATION REPORT

	Base salary incl. NIC	Pension and benefits	Termination	Option value of LTIP shares	2020 Total	2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Executive</u>						
*Graydon Butler (appointed 28/2/19)	150	1	-	-	151	137
*Patrick Goulding (appointed 8/1/19)	349	58	-	28	435	462
Marianne Ismail (resigned 16/1/19)	-	-	-	-	-	286
Gary Wilder	100	-	-	12	112	108
<u>Non-Executive</u>						
Jonathan Freeman	79	-	-	-	79	54
David Hudd	36	-	-	4	40	38
Darryl Kaplan (resigned 8/5/19)	-	-	-	-	-	6
Jonathan Massing	25	-	-	12	37	33
Robert Suss (appointed 10/6/19)	28	-	-	5	33	18
Kenneth 'Buzz' West	72	-	-	7	79	77
<b>Aggregate emoluments</b>	<b>839</b>	<b>59</b>	<b>-</b>	<b>68</b>	<b>966</b>	<b>1,219</b>

\*Resigned 31/12/2020

Signed on behalf of the Board:



**Kenneth 'Buzz' West**  
Chairman  
Date: 16 June 2021

## DIRECTORS' RESPONSIBILITIES 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 International Financial Reporting Standards (IFRS) as adopted by the European Union. 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](http://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 International Financial Reporting Standards (IFRS) as adopted by the European Union, 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:



**Kenneth 'Buzz' West**  
**Chairman**  
**Date: 16 June 2021**

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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### **Opinion on the financial statements**

In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 2020 which comprise the Consolidated statement of comprehensive income, Consolidated statement of financial position, the Consolidated statement of changes in equity, Consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### **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 reviewing the inputs and assumptions within the forecast that forms the basis of management's assessment of the going concern assumption, to supporting documentation and our own understanding of the Company. We performed a sensitivity analysis of management's cash flow forecasts, as well as conducting a review of the Group's liquidity position.

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.

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

### Overview

<p><b>Coverage</b></p> <p>These are the key areas which have been subject to a full scope audit.</p>	<p><i>83% of Group loss before tax (calculated on an absolute basis)</i>  <i>99% of Group revenue</i>  <i>88% of Group total assets</i></p>		
<p><b>Key audit matters</b></p>		<b>2020</b>	<b>2019</b>
	Revenue recognition	✓	x
	Accounting for business combinations	✓	x
	Carrying value of intangible assets and goodwill	✓	✓
	<p>Revenue recognition is a key audit matter in current year due to the significant increase compared to prior year, primarily due to revenue earned from the four new businesses.</p> <p>Acquisition accounting has been included as a key audit matter as there were four business combinations in current year and no business combinations in prior year.</p>		
<p><b>Materiality</b></p>	<p><i>Group financial statements as a whole</i></p> <p>£1,577,000 (2019: £931,000) based on 2.5% (2019: 3%) of net assets</p> <p><i>Specific materiality</i></p> <p>£396,000 (2019: £346,000) based on 1.5% of revenue (2019: 7.5% of loss before tax)</p>		

### 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 out 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 revenue were identified as significant and subject to a full scope of their complete financial information.

Six components were considered to be financially significant to the Group, with four being located in the United Kingdom and two 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.

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 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
<p><b>Revenue recognition</b></p> <p>As disclosed in Note 3, the Group recognised revenue of £25.477m for the year ended 31 December 2020.</p> <p>Refer to Note 1 for related accounting policy.</p>	<p>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 revenue recognition, therefore requiring a significant amount of auditor's attention.</p> <p>Our procedures for all revenue streams, amongst others, included:</p> <ul style="list-style-type: none"> <li>• Considering whether the revenue recognition policies are in accordance with IFRSs as adopted by the European Union;</li> <li>• Reconciling revenue recorded per the general ledger to underlying reports from systems;</li> <li>• Selecting a sample of revenue transactions throughout the year and traced to supporting documentation such as third party invoices/ reports and performed recalculation where possible, vouched to cash receipts and verified whether revenue was accounted for appropriately; and</li> <li>• Assessing whether cut-off of revenue was applied appropriately via selecting a sample of revenue transactions before and after year end and acquisition dates for newly acquired entities.</li> </ul> <p>Additional procedures performed over certain revenue streams included:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• For investment management revenue, performing 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.</li> </ul> <p><b>Key observations:</b> Based on procedures performed, revenue is appropriately stated and classified.</p>

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Key audit matter		How the scope of our audit addressed the key audit matter
<p><b>Accounting for the business combinations of:</b></p> <ul style="list-style-type: none"> <li>• <b>Chalice Capital Partners LLC and Chalice Wealth Advisors LLC (together 'Chalice')</b></li> <li>• <b>Sterling Trust Financial Consulting Limited and its subsidiaries</b></li> <li>• <b>Regency Investment Services Limited</b></li> <li>• <b>Manhattan Harbor Capital LLC and its subsidiaries</b></li> </ul> <p>As disclosed in Note 30 of the financial report, on 30 April 2020, Kingswood US Holdings, Inc, acquired 100% of the membership interests in Chalice Capital Partners and Chalice Wealth Advisors (together 'Chalice').</p> <p>As disclosed in Note 30 of the financial report, on 23 June 2020, Kingswood Holdings Limited acquired 100% of the shares in Sterling Trust Financial Consulting Limited and its subsidiaries.</p> <p>As disclosed in Note 30 of the financial report, on 17 November 2020, Kingswood Holdings Limited acquired 100% of the shares in Regency Investment Services Limited.</p> <p>As disclosed in Note 30 of the financial report, on 23 November 2020, Kingswood US Holdings, Inc acquired a controlling stake in Manhattan Harbor Capital LLC through a step acquisition, bringing the total equity ownership at 31 December 2020 to 50.1%.</p> <p>Refer to Note 1 for related accounting policy.</p>	<p>The accounting and disclosure for these acquisitions is a key audit matter due to the significant judgement and complexity involved in assessing 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 consideration would need to be treated as post-combination remuneration has a significant impact to the financial statements.</p>	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>• Reviewing the acquisition agreements to understand the key terms and conditions, and confirming our understanding of the transaction with management;</li> <li>• Assessing whether control is established per IFRS 10 <i>Consolidated Financial Statements</i>, where the Group holds less than 100% interest in the acquiree, by reviewing the investor's relationship with the investee.</li> <li>• Assessing the estimation of the contingent consideration by challenging management's forecasts including key assumptions around probability of achievement of earn-outs;</li> <li>• Assessing the acquisition agreements to determine if any elements of deferred consideration would need to be treated as post-combination remuneration;</li> <li>• Comparing the assets and liabilities recognised on acquisition against the completion accounts of the acquired businesses;</li> <li>• Evaluating the assumptions and methodology in management's determination of the fair value of assets and liabilities acquired which included: <ul style="list-style-type: none"> <li>○ 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 intangible assets associated with the acquisitions.</li> </ul> </li> <li>• Assessing the adequacy of the disclosures of the acquisitions.</li> </ul> <p><b>Key observations:</b> Based on procedures performed, acquisition accounting for the above listed transactions is appropriately stated and classified.</p>

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Key audit matter	How the scope of our audit addressed the key audit matter	
<p><b>Carrying value of intangible assets and goodwill</b></p> <p>At 31 December 2020, the carrying value of intangible assets and goodwill was £47.616m, as disclosed in Note 15.</p> <p>Refer to Note 1 and 2 for detailed disclosures, which include the related accounting policies and critical accounting judgements and estimates.</p>	<p>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.</p> <p>Upon acquisition, goodwill has been allocated to a cash generating unit. Management has determined that three cash generating units exist, being investment management, wealth planning and US operations.</p> <p>An annual impairment test for intangible assets is required for indefinite life assets or where there are indications of impairment under IAS 36 <i>Impairment of Assets</i>.</p>	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Analysing management's key assumptions used in the value in use models to determine their reasonableness including: <ul style="list-style-type: none"> <li>○ Challenging the appropriateness of management's discount rates used in the value in use models with the assistance of internal valuations experts;</li> <li>○ Challenging assumptions around timing of future cash flows by comparison to post-year end management information;</li> <li>○ Checking the mathematical accuracy of the value in use models;</li> </ul> </li> <li>• Performing sensitivity analysis on key assumptions to determine if there would be significant change to the carrying value of the asset; and</li> <li>• Considering any additional impairment indicators and the impact on management's assumptions.</li> </ul> <p><b>Key observations:</b> Based on procedures performed, the carrying value of intangible assets and goodwill is appropriately stated.</p>

### 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.

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Group financial statements	
	2020 £	2019 £
<b>Materiality</b>	1,577,000	931,000
<b>Basis for determining materiality</b>	2.5% of Net assets	3% of Net assets
<b>Rationale for the benchmark applied</b>	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.	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.
<b>Performance materiality</b>	1,103,000 (70% of Materiality)	698,000 (75% of Materiality)
<b>Basis for determining performance materiality</b>	We considered the risk and control environment of the Group	We considered the risk and control environment of the Group

### *Specific materiality*

We also determined that for profit or loss figures, a misstatement of less than materiality for the financial statements as a whole, could influence the economic decisions of users. As a result, we determined materiality for these items based on revenue. We further applied a performance materiality level of 70% of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated. Specific materiality was set as £396,000 (2019: £346,000) which was determined by reference to a benchmark of 1.5% (2019: 7.5% of loss before tax) of consolidated revenue. This lower level of materiality is applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions. In setting performance materiality, we had regard to the financial statement materiality and the risk and control environment.

### *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 £84,000 to £1,261,000 (2019: £24,000 to £609,000). In the audit of each component, we further applied performance materiality levels of 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 £31,000 (2019: £18,620). 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 and financial statements, 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.

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

<b>Matters on which we are required to report by exception</b>	<p>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:</p> <ul style="list-style-type: none"><li>• proper accounting records have not been kept by the Parent Company; or</li><li>• the Parent Company financial statements are not in agreement with the accounting records; or</li><li>• 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.</li></ul>
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### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 31, 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 Parent Company and Group and considered the risk of acts by the Parent Company and 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 IFRSs as adopted by the European Union.
- 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;
  - Review of correspondence with the regulator;
  - Enquiries of management;
  - Sample testing of journal postings made during the year to identify potential management override of controls;
  - Review of meeting minutes throughout the period; and

# KINGSWOOD HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSWOOD HOLDINGS LIMITED (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2020*

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- 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  
16 June 2021

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 2020

		2020	2019
	Notes	£'000	(restated) £'000
<b>Revenue</b>	<b>3</b>	25,477	10,053
Direct expenses		(8,471)	(868)
<b>Gross profit</b>		<u>17,006</u>	<u>9,185</u>
Operating staff costs	<b>6</b>	(11,148)	(7,208)
Other operating costs		(5,052)	(1,766)
Total operating costs		<u>(16,200)</u>	<u>(8,974)</u>
Share of post-tax profits of equity accounted associates		56	-
<b>Operating profit</b>		<u>862</u>	<u>211</u>
<i>Non-operating costs:</i>			
Business re-positioning costs		(1,801)	(1,963)
Finance costs	<b>7</b>	(554)	(211)
<i>Acquisition-related adjustments:</i>			
Amortisation and depreciation		(1,822)	(1,241)
Other gains / (losses)	<b>8</b>	1,744	(381)
Remuneration charge (deferred consideration)	<b>23</b>	(7,254)	(3,765)
Transaction costs		(1,855)	(1,618)
<b>Loss before tax</b>		<u>(10,680)</u>	<u>(8,968)</u>
Tax	<b>9</b>	(60)	-
<b>Loss after tax from continuing operations</b>		<u>(10,740)</u>	<u>(8,968)</u>
Loss from discontinued operations	<b>10</b>	-	(155)
<b>Loss after tax</b>		<u>(10,740)</u>	<u>(9,123)</u>
Other comprehensive loss		(855)	-
<b>Total comprehensive loss</b>		<u>(11,595)</u>	<u>(9,123)</u>

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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**Loss after tax is attributable to:**

- Owners of the parent company	(11,000)	(9,123)
- Non-controlling interests	260	-

**Total comprehensive loss is attributable to:**

- Owners of the parent company	(11,855)	(9,123)
- Non-controlling interests	260	-

**Loss per share:**

- Basic loss per share	12	£ (0.05)	£ (0.05)
- Diluted loss per share	12	£ (0.05)	£ (0.05)

The notes on pages 47 - 98 form an integral part of the financial statements.

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		2020	2019	2018
	Notes	£'000	(restated) £'000	(restated) £'000
<b>Non-current assets</b>				
Property, plant and equipment	13	927	221	148
Right-of-use assets	14	2,828	1,101	-
Goodwill and other intangible assets	15 / 35	47,616	29,208	25,536
Investments	16	-	416	-
Deferred tax asset	17	392	428	428
		<u>51,763</u>	<u>31,374</u>	<u>26,112</u>
<b>Current assets</b>				
Trade and other receivables	18	24,204	2,274	1,156
Cash and cash equivalents	20	3,899	2,006	2,410
		<u>28,103</u>	<u>4,280</u>	<u>3,566</u>
<b>Total assets</b>		<u><u>79,866</u></u>	<u><u>35,654</u></u>	<u><u>29,678</u></u>
<b>Current liabilities</b>				
Trade and other payables	21 / 35	12,955	5,393	2,431
Deferred consideration payable	23 / 35	836	-	-
		<u>13,791</u>	<u>5,393</u>	<u>2,431</u>
<b>Non-current liabilities</b>				
Deferred consideration payable	23 / 35	3,232	-	-
Other non-current liabilities	24 / 35	10,802	2,060	4
Deferred tax liability	17	1,889	-	-
		<u>29,714</u>	<u>7,453</u>	<u>2,435</u>
<b>Total liabilities</b>		<u><u>29,714</u></u>	<u><u>7,453</u></u>	<u><u>2,435</u></u>
<b>Net assets</b>		<u><u>50,152</u></u>	<u><u>28,201</u></u>	<u><u>27,243</u></u>
<b>Equity</b>				
Share capital	25	10,846	10,846	7,743
Share premium	25	8,224	8,224	6,274
Preference share capital	26 / 35	37,550	4,586	-
Deferred share capital		-	-	106
Other reserves		(519)	(296)	(738)
Foreign exchange reserve		(855)	-	-
Retained (loss) / earnings	35	(6,159)	4,841	13,858
		<u>49,087</u>	<u>28,201</u>	<u>27,243</u>
<b>Equity attributable to the owners of the Parent Company</b>		<u>49,087</u>	<u>28,201</u>	<u>27,243</u>
Non-controlling interests		<u>1,065</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>		<u><u>50,152</u></u>	<u><u>28,201</u></u>	<u><u>27,243</u></u>

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

**AS AT 31 DECEMBER 2020**

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The notes on pages 47 - 98 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:



**Kenneth 'Buzz' West**  
Chairman  
Date: 16 June 2021

# KINGSWOOD HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital and share premium	Deferred share capital	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	£'000
<b>Balance at 1 January 2019</b>	14,017	106	-	(738)	-	11,758	25,143	-	25,143
Effect of prior year adjustments	-	-	-	-	-	2,100	2,100	-	2,100
<b>Restated balance at 1 January 2019</b>	14,017	106	-	(738)	-	13,858	27,243	-	27,243
Loss for the year	-	-	-	-	-	(9,123)	(9,123)	-	(9,123)
Issue of share capital	5,053	-	-	-	-	-	5,053	-	5,053
Issue of preference share capital	-	-	4,586	-	-	-	4,586	-	4,586
Write back of deferred share capital	-	(106)	-	-	-	106	-	-	-
Share-based remuneration	-	-	-	442	-	-	442	-	442
<b>Restated balance at 31 December 2019</b>	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)
<b>Balance at 31 December 2020</b>	19,070	-	37,550	(519)	(855)	(6,159)	49,087	1,065	50,152

# **KINGSWOOD HOLDINGS LIMITED**

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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Note 25 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 47 - 98 form an integral part of the financial statements.

**KINGSWOOD HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £'000	2019 £'000
<b>Net cash used in operating activities</b>	<b>27</b>	(1,575)	(1,359)
<b>Investing activities</b>			
Property, plant and equipment purchased		(796)	(132)
Acquisition of investments		(10,579)	(5,416)
Remuneration charge (deferred consideration)		(5,153)	(3,765)
<b>Net cash used in investing activities</b>		(16,528)	(9,313)
<b>Financing activities</b>			
Proceeds from issue of shares		20,243	10,780
Interest paid		(17)	(169)
Lease payments		(421)	(343)
New loans received / loans repaid		255	-
<b>Net cash generated from financing activities</b>		20,060	10,268
<b>Net increase / (decrease) in cash and cash equivalents</b>		1,957	(404)
Cash and cash equivalents at beginning of year		2,006	2,410
Effect of foreign exchange rates		(64)	-
<b>Cash and cash equivalents at end of year</b>	<b>20</b>	3,899	2,006

The notes on pages 47 - 98 form an integral part of the financial statements

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2020

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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 International Financial Reporting Standards (IFRS) adopted by the European Union and in line with 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 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 19.

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.

Sterling Trust Group has been consolidated into the consolidated statement of comprehensive income as of 24 June 2020.

Regency has been consolidated into the consolidated statement of comprehensive income as of 18 November 2020.

Chalice Capital Partners and Chalice Wealth Advisers (together "Chalice") have been consolidated into the consolidated statement of comprehensive income as of 1 May 2020.

Manhattan Harbor Capital ("MHC") and its subsidiaries have been consolidated into the consolidated statement of comprehensive income as of 23 November 2020. At this time the Chalice entities were contributed into MHC.

##### 1.3 Adoption of new and revised standards

##### New accounting standards, amendments and interpretations adopted in the period

In the year ended 31 December 2020, the Group adopted the following new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC):

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- COVID-19-related Rent Concessions (Amendment to IFRS 16)

The above standards have not had a significant impact on the Group in the current year.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

##### **New accounting standards, amendments and interpretations adopted in the period**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the financial years beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

Except for references to Conceptual Framework, the above standards, amendments and interpretations have not had a significant impact on the Group in the current year and are not expected to have a significant impact on the Group's financial statements in future accounting periods when the standards become effective.

##### **Prior period restatements**

Prior period financials have been restated to correctly recognise deferred consideration treated as an expense through the Consolidated Statement of Comprehensive Income. Previously all deferred consideration payable on acquisitions was recorded as a deferred liability and included in the fair value of assets acquired. 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 should not have been 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.

Prior period financials have also been restated to correctly recognise preference share capital as compound financial instruments rather than solely equity and are now split between their equity and liability components. Further information is given in note 35.

#### 1.4 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. Further detail in relation to how the Group arrived at the going concern assumption given the ongoing COVID-19 pandemic is contained in the Directors' Report on page 27.

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

##### *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.

##### *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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

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 bases:

- Office equipment, fixtures and fittings: over 60 months on a straight-line basis
- IT equipment and software: over 36 months on a straight-line basis

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.

#### **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. 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. During the year, a gain arose on the release on the final deferred consideration payment due under the Chalice purchase agreement, due to a performance target not being met.

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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

##### *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, which is determined using an industry revenue multiple and percentage of assets under management.

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.

##### *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)
- fair value through other comprehensive income (FVOCI).

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

##### *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
- 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

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).
- 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 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (continued)

##### **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 20.

##### **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.

##### **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 28.

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.

##### **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 applied IFRS 16 - Leases to its financial statements from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

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.

##### *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 a majority stake in the US division's advisory board when grouped with affiliated entities. 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.

Full details of the acquisition of MHC are set out in note 30.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 2 Critical accounting judgements and key sources of estimation uncertainty (continued)

##### *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. On 12 August, the Group increased its interest in MHC and its subsidiaries to 24%, and announced plans to increase its interest to 50.1%. From this point until obtaining a controlling stake on 23 November 2020, the Group consider significant influence was held.

Full details of the acquisition of MHC are set out in note 30.

#### **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 15.

##### *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 28.

##### ***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 17 to the financial statements.

##### ***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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2020*

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### **2 Critical accounting judgements and key sources of estimation uncertainty (continued)**

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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 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 2020. 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
	2020	2020	2020	2020	2020
	£'000	£'000	£'000	£'000	£'000
<b>Continuing operations:</b>					
<b>Revenue (disaggregated by timing):</b>					
Point in time	1,071	1,595	7,299	-	9,965
Over time	3,169	11,320	1,023	-	15,512
	<u>4,240</u>	<u>12,915</u>	<u>8,322</u>	<u>-</u>	<u>25,477</u>
<b>External sales</b>	<b>4,240</b>	<b>12,915</b>	<b>8,322</b>	<b>-</b>	<b>25,477</b>
<b>Operating (loss) / profit</b>	<b>(107)</b>	<b>4,380</b>	<b>543</b>	<b>(3,954)</b>	<b>862</b>
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)
	<u>(120)</u>	<u>3,497</u>	<u>537</u>	<u>(14,594)</u>	<u>(10,680)</u>
<b>(Loss) / profit before tax from continuing operations</b>	<b>(120)</b>	<b>3,497</b>	<b>537</b>	<b>(14,594)</b>	<b>(10,680)</b>
Tax	-	(2)	(101)	43	(60)
	<u>(120)</u>	<u>3,495</u>	<u>436</u>	<u>(14,551)</u>	<u>(10,740)</u>
<b>(Loss) / profit after tax from continuing operations</b>	<b>(120)</b>	<b>3,495</b>	<b>436</b>	<b>(14,551)</b>	<b>(10,740)</b>
<b>Discontinued operations:</b>					
Loss from discontinued operations	-	-	-	-	-
	<u>(120)</u>	<u>3,495</u>	<u>436</u>	<u>(14,551)</u>	<u>(10,740)</u>
<b>(Loss) / profit after tax</b>	<b>(120)</b>	<b>3,495</b>	<b>436</b>	<b>(14,551)</b>	<b>(10,740)</b>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3 Business and geographical segments (continued)

	Investment management 2019 £'000	Wealth planning 2019 (restated) £'000	US operations 2019 £'000	Group 2019 (restated) £'000	Total 2019 (restated) £'000
<b>Continuing operations:</b>					
<b>Revenue (disaggregated by timing):</b>					
Point in time	870	661	-	11	1,542
Over time	3,318	5,193	-	-	8,511
<b>External sales</b>	<b>4,188</b>	<b>5,854</b>	<b>-</b>	<b>11</b>	<b>10,053</b>
<b>Operating profit / (loss)</b>	<b>90</b>	<b>1,905</b>	<b>-</b>	<b>(1,784)</b>	<b>211</b>
Business re-positioning costs	-	-	-	(1,963)	(1,963)
Finance costs	(2)	(8)	-	(201)	(211)
Amortisation and depreciation	-	(328)	-	(913)	(1,241)
Other losses	-	(381)	-	-	(381)
Remuneration charge (deferred consideration)	-	-	-	(3,765)	(3,765)
Transaction costs	-	-	-	(1,618)	(1,618)
<b>Profit / (loss) before tax from continuing operations</b>	<b>88</b>	<b>1,188</b>	<b>-</b>	<b>(10,244)</b>	<b>(8,968)</b>
Tax	-	-	-	-	-
<b>Profit / (loss) after tax from continuing operations</b>	<b>88</b>	<b>1,188</b>	<b>-</b>	<b>(10,244)</b>	<b>(8,968)</b>
<b>Discontinued operations:</b>					
Loss from discontinued operations	(155)	-	-	-	(155)
<b>(Loss) / profit after tax</b>	<b>(67)</b>	<b>1,188</b>	<b>-</b>	<b>(10,244)</b>	<b>(9,123)</b>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 3 Business and geographical segments (continued)

Excerpts for the statement of financial position, by business division, as at 31 December 2020:

	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
Investment in associates					-
Tax assets					392
<b>Total Group assets</b>					<b>79,866</b>
Reportable segment liabilities	1,483	13,125	7,761	7,345	29,714
<b>Total Group liabilities</b>					<b>29,714</b>

	Investment management	Wealth planning	US operations	Group	Total
	2019	2019 (restated)	2019	2019 (restated)	2019 (restated)
	£'000	£'000	£'000	£'000	£'000
Additions to non-current assets	21	5,931	-	932	6,884
Reportable segment assets	2,685	20,872	-	11,253	34,810
Investment in associates				416	416
Tax assets					428
<b>Total Group assets</b>					<b>35,654</b>
Reportable segment liabilities	808	5,105	-	1,540	7,453
<b>Total Group liabilities</b>					<b>7,453</b>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 4 Loss after tax

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Loss after tax for the year is stated after charging		
Depreciation of property, plant and equipment	617	294
Amortisation of intangible assets	1,205	947
Staff costs	12,081	7,947

See Directors' Remuneration Report on page 30 for details of Directors' remuneration during the year.

### 5 Auditor's remuneration

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
The analysis of fees payable to the Group's auditor is as follows:		
Audit of Company	211	53
Audit of Subsidiaries	56	61
CASS audit	20	31
<b>Total auditor's remuneration</b>	<b>287</b>	<b>145</b>

### 6 Staff costs

The average monthly number of persons (including Executive Directors, and self-employed advisers) is as follows:

	<b>2020</b>	<b>2019</b>
Management	8	10
Client advisers	50	30
Operations	79	43
Finance	7	6
Human Resources	4	2
Risk and Compliance	9	8
<b>Average number of employees</b>	<b>157</b>	<b>99</b>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 6 Staff costs (continued)

Aggregate staff remuneration comprised:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	10,113	6,602
Social security costs	1,527	460
Pension costs	454	226
Other benefits	210	217
Share-based remuneration	(223)	442
<b>Total staff costs</b>	<b>12,081</b>	<b>7,947</b>

Operating staff costs	11,148	7,208
Business re-positioning costs	592	485
Acquisition team costs	341	254
<b>Total staff costs</b>	<b>12,081</b>	<b>7,947</b>

#### 7 Finance costs

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>(restated)</b>
		<b>£'000</b>
Bank and other finance charges	554	211

#### 8 Other gains / (losses)

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Net unrealised gains on investments	1,744	-
Impairment of intangibles	-	(381)
	<b>1,744</b>	<b>(381)</b>

Unrealised gains on investments in the year ended 31 December 2020 relates to the US acquisitions. For more details see note 30.

The impairment of intangibles for the year ended 31 December 2019 relates to the write-off of goodwill on the wealth planning CGU.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 9 Taxation

	2020	2019
	£'000	(restated) £'000
Current year tax expense	(101)	-
Movement in deferred tax (note 17)	41	-
	<u>(60)</u>	<u>-</u>

UK corporation tax is calculated at 19.00% (2019: 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:

Loss before tax on continuing operations	(10,680)	(8,968)
Loss before tax on discontinued operations	-	(155)
	<u>(10,680)</u>	<u>(9,123)</u>
Loss before taxation	<u>(10,680)</u>	<u>(9,123)</u>
Tax at the UK corporation tax rate of 19.00% (2018:19.00%)	(2,029)	(1,733)
Expenses not deductible for tax purposes	1,687	967
Adjustments for Statement of Financial Position items	400	185
Adjustment for revenue ineligible for tax purposes	(329)	(3)
Unrelieved tax losses carried forward	376	584
Movement in deferred tax	(41)	-
Different tax rates applied in overseas jurisdictions	(4)	-
	<u>60</u>	<u>-</u>
Taxation charge in the financial statements	<u>60</u>	<u>-</u>

The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due.

No material uncertain tax positions exist as at 31 December 2020. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 10 Discontinued operations

Kingswood Trading Services Limited ceased trading in 2019. The loss from discontinued operations is disclosed separately in the Consolidated Statement of Comprehensive Income.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Loss from discontinued operations</b>	-	155

The results of discontinued operations for the period prior to the disposal date are shown below:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Revenue	-	279
Cost of sales	-	(134)
<b>Gross profit</b>	-	145
Administrative expenses	-	(300)
<b>Operating loss</b>	-	155
<b>Loss before tax</b>	-	155
<b>Loss from discontinued operations for the year</b>	-	155

#### Earnings per share from discontinued operations

The basic and diluted loss per share from discontinued operations for 2020 were £nil (2019: loss per share £(0.008)).

#### Cash flows from discontinued operations

The net operating cash used attributable to discontinued operations for 2020 was £nil (2019: net cash used £155k). There were no cash flows from investing and financing activities.

#### 11 Dividends

The Directors are not proposing to pay a dividend in respect of the year ended 31 December 2020 (year ended 31 December 2019: £nil).

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 12 Earnings per share

	2020 £'000	2019 £'000
Loss from continuing operations for the purposes of basic loss per share, being net loss attributable to owners of the Group	(11,000)	(9,123)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic loss per share	216,920,719	178,875,353
Effect of dilutive potential ordinary shares:		
Share options	-	-
Convertible preference shares in issue	-	-
<b>Weighted average number of ordinary shares for the purposes of diluted loss per share</b>	<b>216,920,719</b>	<b>178,875,353</b>

The basic loss per share is £(0.05) (2019: loss per share £(0.05)). The diluted loss per share is £(0.05) (2019: loss per share £(0.05)).

### 13 Property, plant and equipment

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 13 Property, plant and equipment (continued)

	<b>Fixtures and equipment</b>
	<b>£'000</b>
<b>Cost</b>	
At 1 January 2019	431
Additions	133
	<hr/>
At 31 December 2019	564
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2019	283
Depreciation charged in the year	60
	<hr/>
At 31 December 2019	343
	<hr/>
<b>Net book value</b>	
At 31 December 2019	221
	<hr/> <hr/>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 14 Right-of-use assets

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

	<b>Land and buildings £'000</b>
<b>Cost</b>	
At 1 January 2019	-
Additions	1,335
	<hr/>
At 31 December 2019	1,335
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2019	-
Depreciation charged in the year	234
	<hr/>
At 31 December 2019	234
	<hr/>
<b>Net book value</b>	
At 31 December 2019	1,101
	<hr/> <hr/>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 15 Goodwill and other intangible assets

	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 1 January 2020 (restated)	16,384	17,655	34,039
Additions	9,300	10,313	19,613
	<u>25,684</u>	<u>27,968</u>	<u>53,652</u>
At 31 December 2020	25,684	27,968	53,652
<b>Accumulated amortisation</b>			
At 1 January 2020 (restated)	2,202	2,629	4,831
Amortisation charged for the year	77	1,128	1,205
	<u>2,279</u>	<u>3,757</u>	<u>6,036</u>
At 31 December 2020	2,279	3,757	6,036
<b>Net book value</b>			
At 31 December 2020	<u>23,405</u>	<u>24,211</u>	<u>47,616</u>
	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 1 January 2019	16,765	12,655	29,420
Additions (restated)	-	5,000	5,000
Impairment losses	(381)	-	(381)
	<u>16,384</u>	<u>17,655</u>	<u>34,039</u>
At 31 December 2019 (restated)	16,384	17,655	34,039
<b>Accumulated amortisation</b>			
At 1 January 2019	2,017	1,867	3,884
Amortisation charged for the year (restated)	185	762	947
	<u>2,202</u>	<u>2,629</u>	<u>4,831</u>
At 31 December 2019 (restated)	2,202	2,629	4,831
<b>Net book value</b>			
At 31 December 2019 (restated)	<u>14,182</u>	<u>15,026</u>	<u>29,208</u>

#### 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 three CGUs: investment management, wealth planning and US operations.

	<b>Investment Management</b>	<b>Wealth Planning</b>	<b>US operations</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Goodwill	<u>8,965</u>	<u>9,228</u>	<u>5,212</u>	<u>23,405</u>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 15 Goodwill and other intangible assets (continued)

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. The smallest identifiable group of assets in the Group as at 31 December 2020 are its three divisions, investment management, wealth planning and its US operations, the latter comprising goodwill arising separately on the acquisitions of Chalice and MHC during the year. All key management information is prepared and reviewed across these three divisions, and proposed acquisitions are analysed in one of those divisions. The different groups of assets within those divisions do not generate independent cash flows enabling them to be classed as separate CGUs. This is the seventh year in which the investment management and wealth planning CGUs have been analysed in this format and the first year the US operations CGU has been analysed in this format. Goodwill recognised on US acquisitions in 2020 has been fully attributed to one US CGU, being the smallest identifiable group of assets.

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 Group tests each CGU 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. For the investment management and wealth planning CGUs, fair value less costs to sell is greater than the carrying value. No further assessment of value in use has been performed. The value of the investment management and the wealth planning CGUs exceeded their carrying value by £2.3m and £7.1m respectively. The impairment charge in 2019 relates to Bradley Stewart goodwill in KW Wealth Planning's financial statements, and relates to a decline in ongoing revenues year-on-year, which reflects the gradual diminution of clients acquired on acquisition.

Goodwill from the acquisition of Chalice, as allocated to the US operations CGU, was subject to an initial impairment test in the year ended 31 December 2020. Chalice's goodwill was reviewed as at 23 November 2020, when this entity was contributed into MHC, with no impairment deemed necessary. The US CGU was subsequently reviewed for impairment as at 31 December 2020, with no impairment required.

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%. The discount rates used were 20% for the investment management CGU and 18% for the wealth planning CGU. The US discount rate applied was 36%. The value of the CGU related to Level 2 fair value measurements.

The impact to the value of the CGUs of a reasonably possible change to assumptions is presented in the table below:

	CGU Valuation		
	Reasonably possible	Increase £'000	Decrease £'000
<b>Investment management</b>			
Discounted debt-free future cashflows ("DCF") method	(- / + 5%)	1,135	(1,177)
<b>Wealth planning</b>			
Discounted debt-free future cashflows ("DCF") method	(- / + 5%)	2,002	(4,198)
<b>US operations</b>			
Discounted debt-free future cashflows ("DCF") method	(- / + 5%)	532	(1,456)

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 15 Goodwill and other intangible assets (continued)

##### 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 £23.23m of intangible assets being amortised over 20 years, £0.85m over 15 years and £0.13m over 10 years.

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

The addition in 2019 to intangible assets represents the value of assets under management and associated client lists acquired from Thomas and Co and WFI Financial.

#### 16 Investments

	£'000
<b>Cost</b>	
At 1 January 2019	-
Additions	416
	<hr/>
<b>At 31 December 2019</b>	416
Additions	1,101
Net movement on equity accounting of associate	(16)
Investment de-recognised on gain of control	(1,501)
	<hr/>
<b>At 31 December 2020</b>	-
	<hr/>

On 25 May 2019, Kingswood acquired a 7% interest in US-based Manhattan Harbor Capital, LLC ("MHC") for an initial consideration of £416,435 (US\$525,000), comprising a cash payment of £263,742 (US\$332,500) and a share component of £152,693 (US\$192,500) which was satisfied through the issuance of 1,654,787 new ordinary shares in the Company.

On 12 August 2020, Kingswood acquired an additional 17% interest in MHC for total cash consideration of £1,101,362 (US\$1,438,158).

In the period during which Kingswood held 24% interest in MHC, equity accounting was applied and Kingswood's net movement on investment during this period equalled £16,265 (US\$21,431).

On 23 November 2020, Kingswood acquired a controlling 50.1% share in MHC and its subsidiaries for consideration of £3,841,268 (US\$5,106,582), comprising a cash payment of £832,392 (US\$1,106,582), a deferred cash payment of £752,219 (US\$1,000,000) and the contribution of a 49.9% non-controlling interest in Kingswood Capital Partners, LLC and Kingswood Wealth Advisors, LLC, together valued at £99,210 (US\$131,890).

The carrying value of Kingswood's 24% share of MHC immediately prior to acquiring control, from which was MHC and its subsidiaries was consolidated, was £2,334,365 (US\$3,103,304). This investment is no longer recognised in the consolidated financial statements at year-end, with Kingswood instead fully consolidating MHC and its subsidiaries.

See note 30 for additional details on business combinations.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 17 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:

	Liabilities 2020 £'000	Liabilities 2019 £'000	Assets 2020 £'000	Assets 2019 £'000
<b>Balances:</b>				
At 1 January	-	-	428	428
Reductions due to acquisitions	-	-	(38)	-
Business combinations	(1,932)	-	-	-
Movement in year	43	-	2	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December	<u>(1,889)</u>	<u>-</u>	<u>392</u>	<u>428</u>

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 £15.2m (2019: £13.2m) available for offset against future profits. A deferred tax asset of £392,000 (2019: £428,000) has been recognised as the Group expects to be in a position to restructure to utilise these losses. No deferred tax asset has been recognised in respect of the remaining £12.9m tax losses as there is some uncertainty as to the timing of future expected profit.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023. This rate has not been substantively enacted at the balance sheet date, as result deferred tax balances as at 31 December 2020 continue to be measured at 19%. If closing deferred taxation had been calculated based on a rate of 25%, the deferred tax liability as at 31 December 2020 would have been £596,650 higher.

#### 18 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	837	462
Prepayments	1,060	274
Other debtors	22,307	784
Promissory note	-	754
	<u>          </u>	<u>          </u>
	<u>24,204</u>	<u>2,274</u>

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 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 19 Subsidiaries

Kingswood Holdings Limited, the parent company incorporated in Guernsey, has the following subsidiaries as at 31 December 2020:

<b>Name of subsidiary</b>	<b>Ownership</b>	<b>Activity</b>
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 (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
Regency Investment Services Limited ("Regency") (UK company)	100% owned by KHL	Wealth planning
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
Manhattan Harbor Capital, LLC ("MHC") (US company)	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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 19 Subsidiaries (continued)

Name of subsidiary	Ownership	Activity
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
KW Trading Services Limited ("KWTS") (UK company)	Dissolved on 3 March 2020	Trading and broking services

Profits attributable to non-controlling interests in MHC and its subsidiaries for the period 23 November 2020, when Kingswood acquired control, and the year-end were £435,740 (US\$559,359). Dividends paid to non-controlling interest in the period post-acquisition to 31 December 2020 were £160,106 (US\$216,608).

Accumulated non-controlling interest of MHC and its subsidiaries as at 31 December 2020 were £1,063,924 (US\$1,452,150).

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

<u>As at 31 December:</u>	<b>2020</b> <b>\$'000</b>	<b>2020</b> <b>£'000</b>
Current assets	6,278	4,600
Non-current assets	153	112
Current liabilities	(3,019)	(2,212)
Non-current liabilities	(24)	(17)
 <u>12 months ended 31 December:</u>	 <b>2020</b> <b>\$'000</b>	 <b>2020</b> <b>£'000</b>
Revenue	24,487	19,076
Profit after tax	2,132	1,661
Other comprehensive income	-	-
Total comprehensive income	2,132	1,661

Above figures represent annualised results for MHC and its subsidiaries, including Chalice numbers from 23 November 2020, the date of contribution onwards. Figures pre-dating 23 November 2020 are unaudited.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 20 Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	3,899	2,006

#### 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, minimal client money was held in segregated bank accounts at 31 December 2020 of £20,000 (31 December 2019: £16 million).

#### 21 Trade and other payables

	2020 £'000	2019 (restated) £'000
Trade payables	1,094	863
Accruals and other creditors	9,348	4,030
Lease liability	590	237
Other taxation and social security	1,882	263
Other borrowings	41	-
	<u>12,955</u>	<u>5,393</u>

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

During the year, in response to the COVID-19 pandemic, the Group availed of certain government relief schemes, specifically the option to defer PAYE and VAT due to HMRC. Post year-end, the Group entered into an agreement with HMRC to pay deferred outstanding PAYE, over an 18-month period. See also note 24.

#### 22 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	<u>3,234</u>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 22 Lease liabilities

<b>Carrying amount of lease liabilities:</b>	<b>£'000</b>
At 1 January 2020	1,151
At 31 December 2020	3,234
- Due within one year	590
- Due after more than one year	2,644

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Short-term lease expense	16	-
Low value lease expense	92	33

#### 23 Deferred consideration payable

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>(restated) £'000</b>
Deferred consideration payable on acquisitions:	4,068	-
- falling due within one year	836	-
- due after more than one year	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 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 therefore no gains or losses have arisen from this during the year.

The Group has restated its accounting treatment to conform with the required treatment of deferred consideration under IFRS 3.

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 £7,253,510 (2019: £3,765,436).

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 24 Other non-current liabilities

	2020	2019 (restated)
	£'000	£'000
Lease liability	2,644	914
Preference share liability	7,365	1,146
Other taxation and social security	579	-
Other borrowings	214	-
	<u>10,802</u>	<u>2,060</u>

#### 25 Share capital

	2020 Shares	2019 Shares	2020 £'000	2019 £'000
<b>Ordinary shares issued:</b>				
Fully paid	216,920,719	216,920,719	10,846	10,846
	<u>216,920,719</u>	<u>216,920,719</u>	<u>10,846</u>	<u>10,846</u>

#### Share capital and share premium

	Number of ordinary shares '000	Par value £'000	Share premium £'000	Total £'000
At 1 January 2019	154,871	7,743	6,274	14,017
Issued during year	62,050	3,103	1,950	5,053
	<u>216,921</u>	<u>10,846</u>	<u>8,224</u>	<u>19,070</u>
At 31 December 2019	216,921	10,846	8,224	19,070
Issued during year	-	-	-	-
	<u>216,921</u>	<u>10,846</u>	<u>8,224</u>	<u>19,070</u>
At 31 December 2020	<u>216,921</u>	<u>10,846</u>	<u>8,224</u>	<u>19,070</u>

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.

Movements in ordinary shares can be summarised as follows:

On 8 May 2019 KPI (Nominees) Limited converted £500,000 under the Convertible Facilities Agreement into 5,823,230 ordinary shares of 8.5863p each.

On 30 May 2019 KHL issued 1,654,787 ordinary shares at 9.227p per share as part of an investment in Manhattan Harbor raising £152,687.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 25 Share capital (continued)

On 23 July 2019 KPI (Nominees) Limited converted £500,000 under the Convertible Facilities Agreement into 6,369,426 ordinary shares of 7.85p each.

On 23 July 2019 KPI (Nominees) Limited converted £500,000 under the Convertible Facilities Agreement into 6,369,426 ordinary shares of 7.85p each.

On 25 July 2019 KPI (Nominees) Limited converted £750,000 under the Convertible Facilities Agreement into 9,560,229 ordinary shares of 7.845p each.

On 30 August 2019 KPI (Nominees) Limited converted £1,725,000 under the Convertible Facilities Agreement into 21,131,936 ordinary shares of 8.163p each.

On 3 September 2019 KPI (Nominees) Limited converted £1,425,000 under the Convertible Facilities Agreement into 17,510,444 ordinary shares of 8.138p each.

On 4 September 2019 KPI (Nominees) Limited purchased Astoria Investments (UK) Limited's entire holding of 28,059,272 ordinary shares of 5 pence each in the Company at a price of 7.5 pence.

KPI (Nominees) Limited currently holds 143,720,906 Ordinary Shares, representing 66.3 per cent of ordinary shares in issue at 31 December 2020.

#### 26 Preference share capital

	2020	2019	2020	2019 (restated)
	Shares	Shares	£'000	£'000
<b>Convertible preference shares issued:</b>				
Fully paid	44,828,443	5,727,655	37,550	4,586
	<u>44,828,443</u>	<u>5,727,655</u>	<u>37,550</u>	<u>4,586</u>

Preference share capital movements are as follows:

	Number of shares '000	Par value £'000
<b>As at 1 January 2019</b>	-	-
Issued during year	5,728	5,728
	<u>5,728</u>	<u>5,728</u>
<b>As at 31 December 2019</b>	5,728	5,728
Issued during year	39,100	39,100
	<u>44,828</u>	<u>44,828</u>
<b>As at 31 December 2020</b>	<u>44,828</u>	<u>44,828</u>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 26 Preference share capital (continued)

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Equity component	37,550	4,586
Liability component	7,278	1,142
	<u><b>44,828</b></u>	<u><b>5,728</b></u>

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 over £2.6 billion gross AUM across private equity and credit strategies, focused on the financial and business services sectors, with significant experience in specialty 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 27 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 20.

	2020	2019 (restated)
	£'000	£'000
<b>Loss before tax</b>	(10,680)	(8,968)
<b>Adjustments for:</b>		
Depreciation and amortisation	1,822	1,241
Finance costs	554	211
Remuneration charge (deferred consideration)	7,254	3,765
Share-based payment expense	(223)	442
Other (gains) / losses	(1,744)	381
Foreign exchange gain	(22)	-
Tax paid	(103)	-
Share of post-tax profits of equity accounted associates	(56)	-
Loss from discontinued operations	-	(155)
	<u>(3,198)</u>	<u>(3,083)</u>
<b>Operating cash flows before movements in working capital</b>	(3,198)	(3,083)
Increase in receivables	(1,893)	(1,117)
Increase in payables	3,516	2,841
	<u>(1,575)</u>	<u>(1,359)</u>
<b>Net cash outflow from operating activities</b>	(1,575)	(1,359)

Changes in non-current liabilities, including both changes arising from cash flows and non-cash changes are shown below:

	Non-current liabilities £'000
<b>At 1 January 2020 (restated)</b>	2,060
<b>Cash flows:</b>	
Lease liability	(428)
<b>Non-cash flows:</b>	
Deferred consideration	3,232
Preference share liability	6,219
Other taxation and social security	680
Other borrowings	214
Lease liability	1,725
	<u>13,702</u>
<b>At 31 December 2020</b>	13,702

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 28 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.

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
	2020	2020	2019	2019 (restated)
	Pence		Pence	
Outstanding at 1 January	5.50	34,607,500	77.21	314,500
Granted during the year	-	-	5.00	39,750,000
Exercised during the year	-	-	-	-
Forfeited during the year	5.00	(14,658,333)	5.99	(5,457,000)
Outstanding at 31 December	5.87	19,949,167	5.50	34,607,500
Vested and exercisable at 31 December	72.17	257,500	72.17	257,500

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 28 Share-based remuneration (continued)

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

Grant date	Expiry date	Exercise price Pence	Share options 2020	Share options 2019 (restated)
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	5,466,667	9,950,000
9 May 2019	31 December 2029	5.00	12,125,000	21,250,000
28 June 2019	31 December 2029	5.00	2,000,000	3,000,000
1 July 2019	1 July 2029	5.00	100,000	150,000
Total			<u>19,949,167</u>	<u>34,607,500</u>

Weighted average contractual life of options outstanding at end of period	8.26 years	9.28 years
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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.

	2019
Option pricing model used	Monte Carlo
Weighted average share price at grant date (p)	10.03
Exercise price (p)	5.00
Weighted average contractual life (in days)	3,653
Expected volatility (15 February 2019 tranche)	50.19%
Expected volatility (9 May 2019 tranche)	55.04%
Expected volatility (28 June 2019 tranche)	57.47%
Expected volatility (1 July 2019 tranche)	57.52%
Expected dividend growth rate	N/A
Risk-free interest rate	0.6-0.7%

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.

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

	2020 £'000	2019 £'000
Options issued under employee option plan	<u>223</u>	<u>(442)</u>

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 29 Financial instruments

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

	2020 Carrying amount £'000	2019 Carrying amount (restated) £'000
<b>Financial assets measured at amortised cost</b>		
Trade and other receivables	23,048	2,274
Cash and cash equivalents	3,899	2,006
<b>Financial liabilities measured at amortised cost</b>		
Trade and other payables	(10,483)	(5,156)
Other non-current liabilities	(794)	-
Lease liability	(3,234)	(1,151)
Preference share liability	(7,365)	(1,146)
<b>Financial liabilities measured at fair value through profit and loss</b>		
Deferred consideration payable	(4,068)	-
	<u>1,003</u>	<u>(3,173)</u>

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.

Item	Fair value £'000	Valuation technique	Fair value hierarchy level
Deferred consideration payable	4,068	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:

Assumption	Reasonably possible	Profit or (loss) impact	
		Increase £'000	Decrease £'000
Discount rate change	(+ / - 5%)	(64)	66

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 29 Financial instruments (continued)

#### 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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Cash	3,899	2,006
Trade and other receivables	24,204	2,274
	<u>28,103</u>	<u>4,280</u>

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. See note 20 for further detail on cash and cash equivalents.

Trade and other receivables were neither impaired nor past due on the reporting dates. Due to the nature of trade and other receivables balances the Group is not subject to any expected credit losses. See note 18 for further detail on trade and other receivables.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 29 Financial instruments (continued)

##### 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 2020.

	Repayable on demand	Repayable between 0-12 months	Repayable after more than 12 months	Total
	£'000	£'000	£'000	£'000
<b>At 31 December 2020</b>				
Trade payables	-	1,094	-	1,094
Other payables	-	11,270	8,158	19,428
Deferred consideration payable	-	873	4,545	5,418
Lease liabilities	-	779	3,366	4,145
	<u>-</u>	<u>14,016</u>	<u>16,069</u>	<u>30,085</u>
<b>At 31 December 2019</b>				
Trade payables	-	863	1,203	2,066
Other payables	-	3,090	-	3,090
Deferred consideration payable	-	-	-	-
Lease liabilities	-	329	957	1,286
	<u>-</u>	<u>4,282</u>	<u>2,160</u>	<u>6,442</u>

##### 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).

##### 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 29 Financial instruments (continued)

##### ***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 dollars, 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 20% strengthening of the US dollar against sterling, based on 2020 figures, would have increased the US division's overall profit as recognised in the Statement of Comprehensive Income by £90,657. A 20% weakening of the US dollar, conversely, would have decreased the profit contribution by £75,547.

##### ***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.

#### 30 Business combinations

##### **1. Acquisition of Chalice**

On 30 April 2020, the Company completed the acquisition of a 100% interest in Chalice Capital Partners, LLC and Chalice Wealth Advisors, LLC (together "Chalice").

Chalice Capital Partners, LLC is an Independent Broker Dealer and Chalice Wealth Advisors, LLC is a Registered Investment Advisor, both located in San Diego, California and provide full-service securities brokerage, advisory and investment banking services to a broad-based group of individuals and corporate clients.

Shortly after acquisition the names of the Chalice entities were changed – Chalice Capital Partners, LLC became Kingswood Capital Partners, LLC and Chalice Wealth Advisors, LLC was renamed Kingswood Wealth Advisors, LLC.

The maximum consideration for the acquisition of a 100% interest in Chalice was US\$4.0m (£3.2m) and initial consideration of US\$1.0m (£0.8m) was paid on exchange in December 2019. Following regulatory approval and closing, the second tranche of US\$1.0m (£0.8m) less adjustments for completion cash and working capital was paid on 5 May 2020. The third tranche of US\$1.0m (£0.8m) was paid on 21 August 2020 on Chalice meeting pre-agreed asset migration and revenue hurdles. The fourth and final tranche of US\$1.0 million (£0.8m) was not paid as Chalice failed to meet the pre-agreed EBITDA hurdle for year ending 31 October 2020.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

Payments were made through the issue of new convertible preference shares under the terms the Group's 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:

	Book value	Adjustment	Fair value
	£'000	£'000	£'000
Receivables	329	-	329
Cash	113	-	113
Payables	(238)	-	(238)
Total identifiable net assets	<u>204</u>	<u>-</u>	<u>204</u>

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	£'000
Initial cash paid	1,901	1,507
Deferred consideration	<u>2,000</u>	<u>1,586</u>
Total purchase consideration	<u>3,901</u>	<u>3,093</u>
Goodwill recognised on acquisition	3,644	2,889

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 presence of certain intangible assets, primarily underlying client relationships within the acquired businesses, which do not qualify for separate recognition;
- the strategic foothold the Chalice team and business gives the Company in the US market; and
- the ability to leverage the Chalice platform and achieve economies of scale.

The goodwill recognised will not be deductible for tax purposes.

#### ***Revenue and profit contribution***

Since the acquisition date, Chalice has contributed £4,287,264 to Group revenues and a loss of £47,483 to Group profit before tax.

If the acquisition had occurred on 1 January 2020, the contribution to Group revenue would have been £9,211,291 and to Group profit before tax would have been £273,613.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

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

	<b>\$'000</b>	<b>£'000</b>
Total purchase consideration	3,901	3,093
Less:		
Deferred consideration	(2,000)	(1,586)
Initial cash paid to sellers	1,901	1,507
Less: cash held by Chalice	(143)	(113)
Net cash outflow	<u>1,758</u>	<u>1,394</u>

#### 2. Acquisition of Sterling Trust

On 23 June 2020, the Company completed the acquisition of a 100% interest in Sterling Trust Financial Consulting Limited (Sterling Trust) and its subsidiaries, a high-quality IFA business which operates from headquarters in Hull, Yorkshire and four satellite offices in Darlington, Newcastle, Sheffield & York. Sterling Trust provides independent financial advice to individuals and corporates across the UK and at acquisition employed 48 people including 22 IFAs advising/managing £1.2 billion AUA/AUM on behalf of circa 5,000

The business was acquired for a cash consideration of £17.75 million, payable over a 3-year period. £7.25 million was paid at closing and the balance will be paid on a deferred basis subject to Sterling Trust meeting pre-agreed asset migration, recurring revenue, and EBITDA hurdles over a 3-year year period, with the final deferred payment due in June 2023. An additional deferred payment of maximum £1.775 million is payable over the 3-year period subject to achievement of an excess EBITDA target over that period.

Under the terms of the acquisition, payment of deferred consideration is contingent on the seller remaining within the employment of the Group for the first two years of the deferred consideration period. Consequently, a portion of the 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.

In the twelve months to 31 December 2019 Sterling Trust delivered EBITDA of £2.5 million through strong and consistent revenue growth and a keen focus on driving high levels of recurring revenue. Sterling Trust had total assets of £6.1 million at 31 December 2019.

Initial consideration of £7.25 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

Details of the fair value of identifiable assets and liabilities acquired, the purchase consideration and goodwill are as follows:

	Book value £'000	Adjustment £'000	Fair value £'000
Property, plant and equipment	247	-	247
Goodwill and intangibles	3,262	5,025	8,287
Receivables	2,078	(1,916)	162
Cash	949	-	949
Payables	(415)	(83)	(498)
Taxation	(569)	-	(569)
Deferred tax liability	-	(1,575)	(1,575)
Total identifiable net assets	<u>5,552</u>	<u>1,451</u>	<u>7,003</u>

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:

Initial cash paid	£'000
Deferred consideration	7,591
Total purchase consideration	<u>3,274</u>
	<u>10,865</u>

Goodwill recognised on acquisition 3,862

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 presence of certain intangible assets, primarily underlying client relationships within the acquired businesses, which do not qualify for separate recognition;
- the strategic foothold the Sterling Trust team and business gives the Company in the North East market; and
- the ability to leverage the Sterling Trust platform and achieve economies of scale.

The goodwill recognised will not be deductible for tax purposes.

#### ***Revenue and profit contribution***

Since the acquisition date, Sterling Trust has contributed £3,753,303 to Group revenues and £1,306,593 to Group loss before tax.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 30 Business combinations (continued)

If the acquisition had occurred on 1 January 2020, the contribution to Group revenue would have been £7,230,047 and to Group loss before tax would have been £2,516,911.

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

	£'000
Total purchase consideration	10,865
Less:	
Deferred consideration	(3,274)
Initial cash paid to sellers	7,591
Less: cash held by Sterling Trust	(949)
Net cash outflow	<u>6,642</u>

#### 3. Acquisition of Regency Investment Services

On 17 November 2020, the Company completed the acquisition of a 100% interest in Regency Investment Services (Regency), a high-quality IFA business which operates from Egham, Surrey. The transaction boosted Kingswood's client facing advisory team to 67 people and at completion increased assets under advice/management to circa £5.0 billion from over 16,000 active clients.

Regency provides independent financial advice to individuals and corporates primarily in the Greater London area and currently employs 12 people including six IFAs advising on and managing £320 million AUA/AUM on behalf of circa 1,000 clients.

The business was acquired for cash consideration of £3.45 million, payable over a 3-year period. £1.38m was paid at closing and the balance will be paid on a deferred basis subject to Regency meeting pre-agreed recurring revenue and EBITDA hurdles over a 3-year year period. An additional deferred payment of maximum £1.2 million is potentially payable at the end of the 3-year period subject to achievement of an excess EBITDA target over that period.

Under the terms of the acquisition, payment of deferred consideration is contingent on one of the sellers remaining within the employment of the Group for the deferred consideration period. Consequently, a portion of the 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.

The company has a highly qualified and experienced team of financial advisers supported by a dedicated support team. Regency's continued success is built around developing and maintaining long-term client relationships, making the Regency team a perfect fit for Kingswood.

In the twelve months to 31 January 2020 it delivered EBITDA of £0.5 million through strong and consistent revenue delivery and a keen focus on driving high levels of recurring revenue. As of 31 January 2020 Regency had total assets of £2.6m and net assets of £2.1m.

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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

Details of the fair value of identifiable assets and liabilities acquired, the purchase consideration and goodwill are as follows:

	Book value	Adjustment	Fair value
	£'000	£'000	£'000
Property, plant and equipment	10	-	10
Goodwill and intangibles	1,925	(43)	1,882
Receivables	83	-	83
Cash	488	-	488
Payables	(75)	-	(75)
Taxation	(138)	-	(138)
Deferred tax liability	-	(358)	(358)
	<u>2,293</u>	<u>(401)</u>	<u>1,892</u>

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	1,738
Deferred consideration	381
	<u>2,119</u>
Goodwill recognised on acquisition	227

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 presence of certain intangible assets, primarily underlying client relationships within the acquired businesses, which do not qualify for separate recognition;
- the strategic foothold the Regency team and business gives the Company in the Greater London market; and
- the ability to leverage the Regency platform and achieve economies of scale.

The goodwill recognised will not be deductible for tax purposes.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

##### *Revenue and profit contribution*

Since the acquisition date, Regency has contributed £171,960 to Group revenues and £(5,495) to Group loss before tax.

If the acquisition had occurred on 1 January 2020, the contribution to Group revenue would have been £1,608,373 and to Group loss before tax would have been £491,122.

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

	£'000
Total purchase consideration	2,119
Less:	
Deferred consideration	(381)
Initial cash paid to sellers	1,738
Less: cash held by Regency	(488)
Net cash outflow	<u>1,250</u>

#### 4. Acquisition of Manhattan Harbor Capital (re-named Kingswood US)

Over the period May 2019 to August 2020 the Company progressively acquired a 24% interest in Manhattan Harbor Capital ("MHC"), a US based financial services business.

On 23 November 2020, the Company contributed 100% of its Chalice business into MHC at a value of US\$4m (£3.1m) for additional equity in MHC, in addition to a further cash equity investment of US\$1.1m (£0.9m) which combined to increase the Company's interest in MHC to a majority and controlling 50.1% position.

MHC has been rebranded Kingswood US and provides the Kingswood Group with a strong, robust and well-capitalised foundation to accelerate its growth strategy in the US.

The Company intends to contribute up to US\$8.0m (£5.7m) of additional growth equity to Kingswood US before 31 December 2022 to further build US distribution channels through active adviser recruitment. If all capital is approved and fully deployed, the Kingswood Group is projected to own approximately 68% of the integrated Kingswood US financial services platform.

Kingswood US now comprises strong Independent Broker Dealer ("IBD") and Registered Investment Adviser ("RIA") businesses across the US with key hubs in Atlanta, New York, and San Diego. In addition it incorporates Kingswood Capital Markets, a national Investment Banking platform now supported by significant regulatory capital to leverage expansion of distribution channels and drive growth across equity and debt advisory, capital raising and M&A.

Kingswood US has a team of 203 Authorised Representatives managing US\$2.1 billion of client assets from key offices in New York, Atlanta, and San Diego.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

On a pro-forma, unaudited basis, in the twelve months to 31 December 2020 a combined Kingswood US delivered revenue of US\$36.1m (£28.1m) and EBITDA of US\$2.3m (£1.8m) on a fully consolidated basis.

Payments to acquire MHC were made by the Company issuing new convertible preference shares under the terms of its 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:

	Book value	Adjustment	Fair value
	£'000	£'000	£'000
PPE & Investments	874	-	874
Receivables	2,379	-	2,379
Cash	2,922	-	2,922
Payables	(3,364)	-	(3,364)
Total identifiable net assets	<u>2,811</u>	<u>-</u>	<u>2,811</u>

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:

	<b>\$'000</b>	<b>£'000</b>
Initial cash paid	1,107	832
Additional capital contribution payable	1,000	752
Fair value of Chalice non-controlling interest contributed	132	99
Fair value of previously held equity interest	<u>3,103</u>	<u>2,334</u>
Total purchase consideration	<u>5,342</u>	<u>4,017</u>
	<b>\$'000</b>	<b>£'000</b>
Fair value re-measurement of MHC equity interest	1,162	874
Non-controlling interest at acquisition	1,865	1,403
Goodwill	3,470	2,610

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 30 Business combinations (continued)

The main factors leading to the recognition of goodwill are:

- the presence of certain intangible assets, primarily underlying client relationships within the acquired businesses, which do not qualify for separate recognition; and
- the strategic foothold the Kingswood US team and business gives the Company in the US market; and
- the ability to leverage the Kingswood US platform and achieve economies of scale.

The goodwill recognised will not be deductible for tax purposes.

#### **Revenue and profit contribution**

Since achieving a 50.1% interest, MHC and its subsidiaries (excluding Chalice) has contributed £4,045,223 to Group revenues and £601,544 to Group profit before tax.

If the acquisition had occurred on 1 January 2020, the contribution to Group revenue would have been £18,373,741 and to Group profit before tax would have been £1,765,852.

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

	<b>\$'000</b>	<b>£'000</b>
Total purchase consideration	5,342	4,018
Less:		
Fair value of previous holdings / entity contributions	(3,235)	(2,434)
Initial cash paid to sellers	2,107	1,584
Less: cash held by MHC	(3,884)	(2,922)
Net cash inflow	(1,777)	(1,338)
	<b>2020</b>	<b>2020</b>
<b>Post 50.1% share</b>	<b>\$'000</b>	<b>£'000</b>
Combined Kingswood US revenue	10,696	8,332
Combined Kingswood US profit after tax	582	453

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 31 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. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on page 30.

	2020	2019 (restated)
	£'000	£'000
Short-term employee benefits	898	885
Termination benefits	-	272
Share-based payments	68	62
	<u>966</u>	<u>1,219</u>

##### Other related parties

During the year, KHL paid £nil interest (2019: £141,113) to KPI (Nominees) Limited, its major shareholder. KHL incurred fees of £125,000 (2019: £125,000) from KPI (Nominees) Limited in relation to Non-Executive Director remuneration. At 31 December 2020, £112,500 of these fees and interest remained unpaid (2019: £75,000).

Fees received from Moor Park Capital Partners LLP, in which Gary Wilder holds a beneficial interest, relating to property related services provided by KHL totalled £20,000 for the year ended 31 December 2020 (2019: £20,000), of which £nil (2019: £20,000) was outstanding at 31 December 2020.

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, totalled £184,426 for the year to 31 December 2020 (2019: £90,894), of which £29,280 (2019: £22,849) was outstanding at 31 December 2020.

#### 32 Capital management

The Group 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.

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 32 Capital management (continued)

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
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.

The debt-to-equity ratios at 31 December 2020 and 31 December 2019 were as follows:

	2020	2019 (restated)
	£'000	£'000
Loans and borrowings	255	-
Lease liabilities	3,234	1,151
Less: cash and cash equivalents	(3,899)	(2,006)
Net debt	-	-
Total equity	50,152	28,201
Debt to equity ratio (%)	0%	0%

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2020*

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### 33 Financial commitments

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

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Commitments	5,861	-

### 34 Ultimate controlling party

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

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 35 Restatement of prior years

##### Deferred consideration

The Group has restated its accounting treatment regarding business combinations and deferred consideration to conform with the required treatment of deferred consideration under IFRS 3. Previously all deferred consideration payable on acquisitions was recorded as a deferred liability and included in the fair value of the consideration of the business acquired. 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 should not have been 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.

This has therefore required the restatement of prior years and the reclassification of certain deferred payments as remuneration. The following restatement covers the share purchase acquisition of Marchant McKechnie in 2018 and the asset purchases of WFI and Thomas & Co in 2019.

##### Preference share capital

Prior period financials have also been restated to correctly recognise preference share capital as compound financial instruments rather than solely equity and are now split between their equity and liability components. £1,141,785 of preference share capital was restated as other non-current liabilities. The preference share liability was increased in 2019 to £1,146,073, with £4,288 being expensed to the profit and loss as a finance charge.

All other prior year movements summarised below relate to the IFRS 3 restatement.

##### (a) Statement of Comprehensive Income (extract)

	2019	Increase / (decrease)	2019 (restated)
	£'000	£'000	£'000
Finance charge	384	(173)	211
Amortisation charge	1,132	(185)	947
Remuneration charge (previously deferred consideration)	-	(3,735)	(3,735)
<b>Total comprehensive loss</b>	<b>(5,716)</b>	<b>(3,407)</b>	<b>(9,123)</b>
Earnings per share - basic and diluted	£ (0.03)	£ (0.02)	£ (0.05)

	2018	Increase / (decrease)	2018 (restated)
	£'000	£'000	£'000
Remuneration charge (previously deferred consideration)	-	(300)	(300)
Gain on bargain purchase	-	2,400	2,400
<b>Total comprehensive (loss) / income</b>	<b>(4,718)</b>	<b>(2,100)</b>	<b>2,618</b>
Earnings per share - basic and diluted	£ (0.03)	£ 0.01	£ (0.02)

# KINGSWOOD HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 35 Restatement of prior years (continued)

##### (b) Statement of Financial Position (extract)

	2019	Increase / (decrease)	2019 (restated)
	£'000	£'000	£'000
Intangible assets and goodwill	40,191	(10,983)	29,208
<b>Total non-current assets</b>	<b>42,357</b>	<b>(10,983)</b>	<b>31,374</b>
Trade and other payables	2,566	2,827	5,393
Deferred consideration payable in less than 1 year	5,168	(5,168)	-
<b>Total current liabilities</b>	<b>7,734</b>	<b>(2,341)</b>	<b>5,393</b>
Deferred consideration payable in more than 1 year	7,377	(7,377)	-
Other non-current liabilities	914	1,146	2,060
<b>Total liabilities</b>	<b>16,025</b>	<b>(8,572)</b>	<b>7,453</b>
<b>Net assets</b>	<b>30,612</b>	<b>(2,411)</b>	<b>28,201</b>
Retained earnings	6,110	(1,269)	4,841
Preference share capital	5,728	(1,142)	4,586
<b>Total equity</b>	<b>30,612</b>	<b>(2,411)</b>	<b>28,201</b>
	<b>2018</b>	<b>Increase / (decrease)</b>	<b>2018 (restated)</b>
	£'000	£'000	£'000
Trade and other payables	2,131	300	2,431
Deferred consideration payable in less than 1 year	1,200	(1,200)	-
<b>Total current liabilities</b>	<b>3,331</b>	<b>(900)</b>	<b>2,431</b>
Deferred consideration payable in more than 1 year	1,200	(1,200)	-
<b>Total liabilities</b>	<b>4,535</b>	<b>(2,100)</b>	<b>2,435</b>
<b>Net assets</b>	<b>25,143</b>	<b>2,100</b>	<b>27,243</b>
Retained earnings	11,758	2,100	13,858
<b>Total equity</b>	<b>25,143</b>	<b>2,100</b>	<b>27,243</b>

#### 36 Subsequent events

On 16 June 2021, Kingswood signed definitive agreements to acquire 100% of the shares in Admiral Wealth Management, an independent financial advisory firm with a client base primarily in Lincolnshire and Yorkshire. Following regulatory approval, the business will be acquired for cash consideration of £4.0 million, payable over a 2-year period. £2.0 million 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.

The potential future tax impact of the March 2021 Budget is disclosed in note 17.