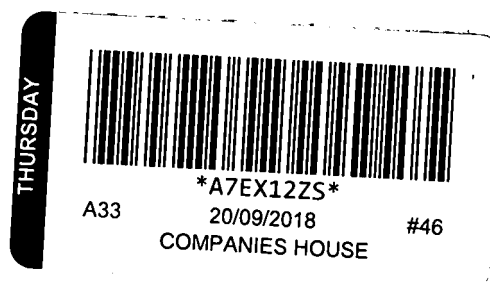


Company Registration No. 07925023 (England and Wales)

KNIGHT SQUARE HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



KNIGHT SQUARE HOLDINGS LIMITED

COMPANY INFORMATION

| | | |
|-----------------------------|--|--------------------------|
| Directors | P J Lester | |
| | A J Hartley | |
| | J L D Crawford | |
| | A J Fortescue | |
| | A Cooper-Evans | |
| | N Howell | |
| | M Turner | |
| | S Muncer | (Appointed 26 June 2017) |
| | T Barclay | (Appointed 26 June 2017) |
| | S Watkinson | (Appointed 19 July 2017) |
| Secretary | S Muncer | (Appointed 25 May 2017) |
| Company number | 07925023 | |
| Registered office | Queensway House 11 Queensway New Milton Hampshire United Kingdom BH25 5NR | |
| Independent auditors | PricewaterhouseCoopers LLP 10 Bricket Road St Albans Herts AL1 3JX | |
| Bankers | Royal Bank of Scotland 12 High Street Southampton Hampshire S014 2BF | |

KNIGHT SQUARE HOLDINGS LIMITED

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KNIGHT SQUARE HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Resilient performance across the Group, well positioned for growth

I am pleased to report the financial results for the year ended 31 December 2017 for the Knight Square Group and our operating businesses: FirstPort, and Appello.

The Knight Square Group is a leading provider of UK residential property services and a digital-enabled care solutions provider with the UK's largest Technology Enabled Care Services ("TECS") monitoring capability. The Group comprises two separately managed and operated businesses: FirstPort and Appello.

The UK's largest residential property services business, FirstPort, has a vision to also be the UK's leading residential property services business; it has a service delivery structure organised around six different market segments and target customers: Luxury, Large and Complex, Property Services, Estates, Build to Rent, and Retirement.

FirstPort maintains and manages more than 184,000 properties in over 3,800 developments and has pursued two goals to deliver its strategy, these being to ensure consistently high customer service, as demonstrated by its customer retention rate of 98.1%, and so generate enhanced growth prospects; and secondly to grow via acquisition in a highly fragmented sector.

Appello provides smart living solutions targeted particularly at the growing sector of the elderly and the vulnerable. This suite of digital services integrates both safety and wellbeing technologies into peoples' homes. These solutions create a digital environment that enables audio and video communication, along with valuable data insights, to flow between individuals' homes, on-site and off-site support staff, the Appello Monitoring Centre and the insights platform AppelloIQ. Currently Appello's team of experienced operators manage around 5 million calls annually from across the UK, supporting over 170,000 people and are one of the UK's market leading digitally enabled care and monitoring services businesses.

The Knight Square Group's focus this year has been to garner the full benefits of the operational improvements we undertook during 2016 and to continue to deliver top quality customer satisfaction. We have expanded the on the ground operational teams to provide the management bandwidth to ensure that we drive forward our well defined future growth plans for the businesses.

FirstPort

Summary of financial performance

For the year ended 31 December 2017, FirstPort reported an increase in revenue of 1.3% to £55,199k (2016: £54,499k) and a decrease in EBITDA of 4.2% to £13,884k (2016: £14,488k) marginally below last year but reflecting the short term impact of retirement home sales, and investment and increased costs incurred by staff development initiatives and costs incurred by the Apprentice Levy and auto-enrolment of pension schemes.

The business model is services driven and therefore much of FirstPort's earnings come from substantially predictable management fees on buildings under management. This provides the Group with recurring revenues and a high degree of earnings visibility.

In 2017 it was pleasing to see FirstPort return to business growth. Organic growth mobilised in-year from a range of developer, landlord, and resident management company clients virtually offset losses for the first time in many years, whilst the order book ended the year at over 15,000 units, an increase of 139% on 2016.

A landmark event during 2017 was the successful acquisition of Linden Homes' in-house property management business Pentland Estate Management Limited. This brought circa 12,000 units into FirstPort's portfolio of management properties, along with additional skilled managers. This acquisition complements the Group's organic growth strategy and demonstrates FirstPort's ability to assess

KNIGHT SQUARE HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

opportunities and become an industry consolidator.

2017 was therefore the first year of net positive growth in units managed, and FirstPort ended the year with 184,000 units under management across 3,800 sites. With a significantly improving reputation and new contacts with many of the larger investor and developers in the UK's growing housing market, the business is well positioned for future organic growth, alongside our strategy of exploring earnings enhancing acquisitions.

Market

FirstPort's business environment is broadly positive as its organic growth is driven by the UK's underlying demand for housing. Politics will continue to dominate sentiment for UK real estate through 2018 whilst the agenda is focused on the lack of housing in the UK. Industry commentators, such as the leading housebuilders, continue to report positively on the underlying market dynamics of the sector.

We believe that complex buildings will always require professional managers with well-trained staff and high standards. FirstPort's strategy, supported by its efficient and scalable back office, gives us confidence that the Company can take advantage of its market position to deliver sustainable growth.

Strategic Developments

Given the importance of maintaining consistent customer service levels, FirstPort launched a new induction programme for new starters, investment in training programmes and e-learning facilities during 2017. In the autumn a series of all-staff conferences improved employee engagement. FirstPort is proud to report that the Company enjoys an employee net promoter score well above the UK average and demonstrated an increase from its 2016 standards.

In May 2018, FirstPort disposed of substantially all of its portfolio of investment properties generating net cash proceeds of £20.1 million. The proceeds of the sale were used to fully repay the Group's Senior Loan Notes as well as a portion of the interest on its Junior debt.

FirstPort Outlook

We are now seeing the benefits of our focus on operational improvements and repositioning the business for the past two years, in terms of customer satisfaction and client retention, all of which filters into a more resilient financial performance. The opportunities as a leader in this market are considerable. We have plans in place to grow the business both organically and by selective acquisitions from within what is a highly fragmented market place.

We remain committed to ensuring that we retain this market leadership and focus on customer service. Although there will always be challenges, we have in place strong corporate governance, processes and plans to ensure that the outlook for FirstPort remains positive. The business is well positioned for future organic growth, alongside our strategy of exploring earnings enhancing acquisitions.

Appello

Summary of financial performance

Appello's focus on improving the quality of its earnings meant that its EBITDA performance improved from a loss of £613k in 2016 to a £39k positive EBITDA in 2017, with a run-rate that delivers further significant EBITDA growth in future years.

The strategic decision to exit loss-making maintenance contracts during the year meant revenues declined from £20,928k in 2016 to £20,052k as growth in new services was off-set by the deliberate reduction in those unprofitable contracts.

KNIGHT SQUARE HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Looking ahead Appello's focus is on profitable contracts rather than seeking volume of work whereby our target gross margins are not achievable. They are continuing to build a platform for their services model to drive annuity revenues.

Strategic Initiatives

Appello's key developments and strategic initiatives are to capitalise on the opportunities presented by the UK market dynamics. During 2017 this was specifically the pent up demand in at-home care support services and the significant revenue opportunity created by the migration from analogue to digital life safety support services.

Full details of these initiatives are detailed in the Appello Business and Strategic Review but in summary they are to continue to invest in its Smart Living Solutions (SLS), the UK's first end to end digital care solution for sheltered housing or communal retirement living; to provide ongoing investment in its Carenet platform, which is the UK's largest and most advanced telecare monitoring capability, and be a more vocal contributor to thought leadership debates on the UK's challenges of retaining at home care and support.

In June 2018 the Group disposed of the trade and assets of its analogue maintenance business, for £452k. The disposal of the maintenance business allows the Group to focus on taking advantage of the UK market opportunity in digital safety and wellbeing support.

Market

The widely reported challenges created by the UK's ageing population are felt most acutely in housing, health and social care services. Fundamental change is required to meet these demands and the adoption of digital technology as an enabler of that transformation gained greater momentum in 2017, especially amongst forward thinking organisations.

This creates an excellent environment for Appello to grow and prosper, as its services provide exactly the right blend of service transformation and customer experience improvements that can drive up satisfaction and increase capacity in the system.

The favourable outlook for Appello created by the market conditions is further improved by the need for Housing and Care providers to move from analogue Telecare devices to Digital services as the underlying analogue telephony that they depend on goes end of life and ultimately becomes obsolete during the next 8 years. There are circa 25,000 communal living developments where this opportunity exists.

In the Telecare Monitoring market, industry data cites that the UK market is estimated to be 1.4 million connections which equates to circa £70m of annual monitoring spend. As the largest in the sector, but still with a relatively small market share of circa 10%, Appello is well placed to drive and benefit from further consolidation and growth.

Appello Outlook

Appello is well positioned to capitalise on a number of major trends in the UK retirement housing and health sector. As is well known, the population is growing and ageing. By 2039 there will be 9.9 million people in the UK aged over 75, according to the Office of National Statistics, nearly double the number in 2012. That means more appropriate houses for older people will be needed and the types of accommodation required will change, to reflect their diverse needs.

At the same time, attitude towards housing is changing. Today, retirees expect housing that meets their lifestyle preferences. That means housing that supports independence in later life, and that helps them enjoy a sustained quality of life. Appello's digital solutions and services can support this move.

In parallel, pressure is coming from government for health and social care services to develop cost-

KNIGHT SQUARE HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

effective preventive care and support alternatives with greater emphasis on integrated approaches that allow for management of chronic conditions in the home.

During 2018 and beyond, Appello will continue to champion greater integration of health and retirement housing and demonstrate how technology can play a greater role in delivering a more person-centric approach. They know from talking to their customers, and from independent research they have conducted, that there is an appetite for change and a move into a digital, insight-led world.

By fusing technology and the unique human capabilities of its leading Telecare monitoring centre, Appello has an essential role to play in paving the way for a future where housing, health and social services have the tools they need to support our citizens in living happier, healthier and more independent lives, for longer.

Board and Governance

The Knight Square Executive Board of Directors are experienced, skilled and dedicated with extensive experience from a range of sectors including real estate and healthcare.

In terms of the management team, Nigel Howell is Chief Executive Officer of FirstPort. Nigel joined the business as Group Chief Financial Officer in January 2013 before stepping up to Chief Executive of FirstPort in 2015 and has been instrumental in the performance turnaround at the company with a clear focus on strategy, customer service, staff engagement and safety.

Tim Barclay was appointed Chief Executive Officer of Appello in February 2017 to help the company accelerate its growth in the Telecare Monitoring and Integrated Health Care markets. Prior to joining Appello Tim was Chief Operating Officer for BT's Global Government and Health Organisation, where he oversaw their Future Cities, Digital Health, Complex Bid Cost Transformation and Strategy teams.

People

A primary driver to Knight Square's success is the team of highly skilled, driven and loyal employees across both businesses. Knight Square places great importance on engaging with and developing its employees providing a platform for personnel growth and career development. This sits well with our focus on providing quality services to all our customers. On behalf of the Board, I would like to thank them for their continued hard work and dedication.

Knight Square Outlook

Knight Square's focus this year has been to garner the full benefits of the operational improvements and to continue to deliver top quality customer satisfaction. We have expanded the on the ground operational teams to provide the management bandwidth to ensure that we drive forward our well defined future growth plans for the businesses. We have undertaken some strategic disposals which crystallised circa £20 million of cash to address the Group's balance sheet debt and we are confident that the cash generative nature of the businesses will provide future firepower to support our growth plans.

Both FirstPort and Appello have defined strategies and operate in growth markets. We are confident in the prospects for both businesses and as a group we look forward to the future with confidence.

Paul Lester

Chairman, Knight Square

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2017

Group Financial Performance

| £'000s | 2017 | 2016 | Change (%) |
|--|---------------|---------------|---------------|
| Revenue | | | |
| FirstPort | 55,199 | 54,499 | 1.3% |
| Appello (Ongoing business) | 11,589 | 10,668 | 8.6% |
| Ongoing Revenue | 66,788 | 65,167 | 2.5% |
| Appello (Maintenance and small works) | 8,463 | 10,260 | (17.5)% |
| Total Revenue | 75,251 | 75,427 | (0.2)% |
| EBITDA* | | | |
| FirstPort | 13,884 | 14,488 | (4.2)% |
| Appello (Ongoing business) | 879 | 537 | 63.7% |
| Group costs | (2,303) | (2,542) | 9.4% |
| Ongoing EBITDA | 12,460 | 12,483 | (0.2)% |
| Appello (Maintenance and small works)# | (840) | (1,150) | (26.9)% |
| Total EBITDA | 11,620 | 11,333 | 2.5% |

* EBITDA excludes exceptional items, loss / gain on investment properties and other operating income

See events after the balance sheet date section below

Revenue

Group revenues declined slightly to £75,251k (2016: £75,427k) with growth coming from FirstPort (1.3% growth) offset by lower revenue in Appello (4.2% decline) due to the strategic decision to exit some loss-making contracts.

FirstPort's resilient business model meant that, despite its exposure to the cyclical housing resale market, which experienced a slowdown in 2017, the business still showed top line growth. Since circa 80% of FirstPort's earnings come from substantially predictable management fees on buildings under management, the Group has stable, recurring revenues and earnings visibility. During the year organic growth from a range of developer, landlord, and resident management company clients virtually offset unit losses for the first time in many years.

In Appello, the strategic decision was taken during the year to exit the analogue maintenance business and a process of terminating unprofitable contracts was undertaken. This had the effect of reducing overall revenues to £20,052k from £20,928k. As described below, on 5 June 2018, in culmination of that decision, Appello disposed of its analogue maintenance business to a third party. Revenues in the ongoing business, being the installation of warden call alarms and the monitoring business were up from £10,668k in 2016 to £11,589k in 2017 driven by strong customer retention in the monitoring business and strong growth in the installation of our Smart Living Solutions digital monitoring product.

EBITDA

Group EBITDA (excluding exceptional items) increased by 2.5% to £11,620k (2016: £11,333k). Knight Square has continued to invest in both businesses particularly through staff development initiatives and absorbing the impact of the ongoing costs associated with the maintenance business while we exited unprofitable contracts and scaled back operations. We also incurred increased costs as a result of a number of government initiatives which we fully support including the Apprentice Levy and auto-enrolment of pension schemes.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2017

In FirstPort, EBITDA was marginally lower as a result of the revenue reduction in retirement home sales and the additional costs absorbed for the Apprentice Levy and auto-enrollment as described above. The division delivered a full year EBITDA of £13,884k (2016: £14,488k).

In Appello, the monitoring business delivered full year EBITDA of £3,594k. with increased prices broadly offsetting churn. The engineering business, including new sales for Smart Living Solutions, generated an EBITDA of £143k compared to a loss in the prior year. After recognizing £3,698k of central costs, the division made an EBITDA of £39k (2016: £613k loss). The ongoing business generated EBITDA of £879k (2016: £537k).

Central costs declined from £2,542k to £2,303k.

Profit before taxation

During the year, we incurred exceptional items of £2,071k principally reflecting restructuring and reorganisation costs within the FirstPort business. We recognised an increase in the value of our property portfolio of £615k. The increase in value reflects the sale price agreed for the portfolio as described below.

Depreciation and amortisation in the year was £5,373k.

Net Interest

Cash interest paid in the year was £1,630k with an additional non-cash charge of £3,974k related to our senior and junior loan notes.

Investment and interest income has remained flat at £5k (2016: £4k) due to surplus cash being used to reduce drawings on our revolving credit facility.

Taxation

The tax charge in the year of £1,926k (2016: £982k) primarily reflects the fact that historical trading losses were almost fully utilised in the prior period, with the current year charge resulting in an effective tax rate more closely in line to the standard rate of corporation tax.

Group Financial Position

The Group's net liabilities were £6,433k (2016: £3,144k) reflecting the loss after tax in the year. Total assets less current liabilities are £63,733k (2016: £62,700k).

Development related provisions have reduced in 2017 to £507k (2016: £1,298k) as legacy claims continue to be settled and customer service improves year on year.

The capital structure of the Group remains appropriate for a business of this size.

Loans, Borrowing & Cash

| £'000 | 2017 | 2016 | Change (%) |
|--|------------------------|------------------------|----------------------|
| Revolving credit facility | (28,000) | (26,500) | (5.7)% |
| Cash and cash equivalents | <u>4,250</u> | <u>3,098</u> | <u>37.2%</u> |
| Net bank debt | <u>(23,750)</u> | <u>(23,402)</u> | <u>(1.5)%</u> |
| Finance leases | (1,229) | (2,099) | 41.5% |
| Shareholder debt (including accrued interest) | (38,339) | (34,360) | (11.6)% |
| Net debt (excluding deferred financing costs) | <u>(63,318)</u> | <u>(59,861)</u> | <u>(5.8)%</u> |

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group has a revolving credit facility which had an initial commitment of £35.0m reducing by £1.0m every six months from 31 October 2015 to a minimum facility level of £30.0m by 31 October 2017 with an expiry date of 30 September 2019. During the year, the facility was renegotiated to remove the amortisation of the commitment and reset the total commitment to £35.0m until its expiry date which remained unchanged. On 2 August 2018 the facility was further amended to extend the expiry date to 30 September 2020.

Funds available under the facility at 31 December 2017 were £35,000k (2016: £32,000k).

During the year, amounts drawn under the facility increased by £1,500k whilst cash at bank increased by £1,152k, meaning net bank debt increased to £23,750k (2016: £23,402k).

The Group also has shareholder funding upon which interest accrues at the rate prevailing in the loan note agreement but is not repaid until the notes fall due.

The Group has a number of finance lease arrangements that were put in place in previous years for the acquisition of IT equipment. At the year end the balance outstanding was £1,229k (2016: £2,099k). No new finance leases were entered into during the year.

Group Cashflow

Cash balances are managed by the Group in line with the financing and working capital requirements of the Group's trading businesses. Cash generated from operations decreased to £5,603k (2016: £8,978k).

We invested in capital projects including software and improvements to our office estate, spending £4,116k (2016: £5,698k). We also spent £2,703k on the acquisition of Pentland Estate Management Limited during the year.

Receipts from the sale of investment properties were £3,081k (2016: £330k).

Events after the Balance Sheet date

On 24 May 2018, FirstPort disposed of substantially all of its portfolio of investment properties, receiving £20.1 million in net proceeds in cash.

On 5 June 2018, Appello entered into an agreement to dispose of the trade and assets of the analogue maintenance business of its subsidiary, Cirrus Communication Systems Limited, to a third party for a purchase consideration of £452k in cash payable in installments.

On 2 August 2018, the entire principal and accrued interest on the 15% Senior Loan Notes due 2019 was repaid in full and £1.2 million of accrued interest on the Group's 9% Junior Loan notes due 2020 was repaid. On the same day the term of the Group's credit facility with RBS was extended to 30 September 2020 and the term of the 9% Junior Loan Notes was extended to 5 March 2021.

Stuart Muncer

Director of Group Finance, Knight Square

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – FIRSTPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The UK's largest residential property management business

FirstPort is the UK's largest residential property services business with a vision to be the UK's leading residential property services business, addressing the challenges of managing complex shared residential developments through high quality professional services.

Living in communal homes increasingly suits modern lifestyles, whether these are luxury apartment blocks, large developments with staff and facilities, social housing, general apartment blocks, sheltered retirement living, build-to-rent blocks, or housing developments. All of these residential housing styles need shared facilities such as gardens, reception areas, and building decoration to be managed and maintained. FirstPort has the expertise, resources and experience built over 40 years to deliver quality business-to-consumer services.

The company seeks to achieve its vision by having well trained and motivated staff with a desire to deliver excellent service, leading to highly satisfied customers, and therefore delivering excellent returns to investors. Since 2015 FirstPort has pursued two goals to deliver this 'leading' aspiration, these being to ensure consistently high customer service and so generate enhanced growth prospects; and secondly to grow via acquisition in a highly fragmented sector.

FirstPort has a clear business model. The field-based service delivery structure is organised into six customer/market segments, each with their own service offering and their own director. These segments are Luxury, Large and Complex, Property Services, Estates, Build to Rent, and Retirement.

FirstPort employs 3,000 staff around the UK and has a clear service delivery model to ensure consistently high standards wherever the business operates.

FirstPort has in place 'Four Pillars' to define and train consistently high quality residential property services, these being:

- Strong Health and Safety,
- High Site Standards,
- Great Customer Communications, and
- Healthy Estate Finances.

The Four Pillars service standards are communicated to all new and existing staff and are measured for each site. The same standards are expected of our contractors and supply chain with whom the Company seeks to form good relationships.

Service delivery on sites is backed by effective support functions each of which have their own direct impact on improved customer service. FirstPort operate these support processes efficiently, adopting innovations from process improvement, staff training and development, and technology.

Financial and operational performance

FirstPort's performance during 2017 demonstrated the resilience of its business model despite the cyclical housing resale market experiencing a slowdown in 2017 due to Brexit uncertainty combined with the late spring General Election.

For the year ended 31 December 2017, FirstPort reported an increase in revenue of 1.3% to £55,199k (2016: £54,499k) and a decrease in EBITDA of 4.2% to £13,884k (2016: £14,488k) marginally below last year but reflecting the short term impact of slower retirement home sales and increased costs for staff development initiatives and for the Apprentice Levy and auto-enrolment of pension schemes.

During 2017 organic growth from a range of developer, landlord, and resident management company clients virtually offset losses for the first time in many years.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – FIRSTPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The business model is services driven and circa 80% of FirstPort's earnings come from substantially predictable management fees on buildings under management. This provides the Group with recurring revenues and a high degree of earnings visibility. The management fee provides a secure, annuity-like revenue stream which benefits from inflationary growth and is insulated from economic volatility. Additionally, the Company has increased the predictability of this income in the past few years with site retention rates improving from a low point of 93.3% in 2013 to 98.1% in 2017 as customer service quality improved.

Importantly FirstPort is a highly cash generative business and during the year ended 31 December 2017 the business generated cash from operations of £10.5m.

FirstPort has developed an efficient and scalable cost base. As part of the service turnaround, the Company has reduced its costs whilst investing in value added activity. Investment in people skills, process design, and technology has led to an efficient and scalable cost base that places FirstPort in a strong position to convert revenue growth into EBITDA growth and improve EBITDA margins.

2017 was therefore the first year of net positive growth in units managed, and FirstPort ended the year with over 184,000 units under management across 3,800 sites. The order book ended the year at over 15,000 units, an increase of 139% on 2016.

With an improving reputation and new contacts with many of the larger investor and developers in the UK's growing housing market the business appears well positioned for future organic growth, alongside a strategy of exploring earnings enhancing acquisitions.

Acquisition of Pentland Estate Management Limited

A strategically important and landmark event during 2017 was the successful acquisition of Linden Homes' in-house property management business Pentland in July. Linden Homes is owned by the FTSE 250 construction and housebuilding company Galliford Try and this is the first acquisition the Group has undertaken since FirstPort's brand launch in 2015. The acquisition brought circa 12,000 units into FirstPort's portfolio of management properties, along with additional skilled managers.

FirstPort has the opportunity to be an industry consolidator within a fragmented market place. The Company will continue to assess opportunities as it seeks to complement its organic growth strategy with earnings enhancing bolt-on acquisitions.

Market Backdrop

Property Services

The market for residential property services is large and fragmented. There are estimated to be 5.3 million apartments across the UK. There are varying approaches to property services but, even with over 184,000 homes under management, FirstPort has a sub-10% target market share.

The highly fragmented nature of the residential property services market has led to significant variability of standards amongst property services companies. FirstPort are members of the Association of Residential Managing Agents ('ARMA') trade association and are accredited to the ARMA-Q management standards. We note the Government's initiative to improve standards across the property services sector and welcome the further professionalisation envisaged.

At FirstPort we believe that complex buildings will always require professional managers with well-trained staff and high standards. Government, property developers, owners, managers, and residents must work together to ensure the highest standards of safety and service in complex residential buildings.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – FIRSTPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Private Rented Sector

Sentiment in the UK housing market remains stable and the growth opportunity in the UK private rented sector ('PRS') is significant including institutional Build to Rent ('BTR'). The November 2017 Budget re-emphasised the Government's commitment to supporting new housing supply with £8bn support for the sector. It also confirmed a more balanced approach to housing by the UK Government, including support for the professionalisation of the PRS. FirstPort expects to see a continuation of positive policy changes to support investment in BTR over the coming years and given its scale, high standards, and experience the Company is well placed to support this exciting sector.

FirstPort's growth strategy

FirstPort's growth strategy is two-pronged: firstly, it plans to grow the business organically by further developing its recurring revenue management services model through an even better reputation and brand which represents high quality customer service. This is achievable and is backed by an efficient and scalable back office. Secondly, by acquiring earnings enhancing acquisitions from within the highly fragmented property services sector, where it currently holds a sub 10% market share despite being twice the size of its nearest competitor measured by units managed.

Health & Safety

FirstPort has always made health and safety its first priority and had already been accredited to British Safety Council 5* health and safety standards in January 2017. The Company was therefore proud when this globally recognised standard was reconfirmed for FirstPort during our December 2017 audit.

It is FirstPort's view that nobody involved in residential housing must ever become complacent about safety. The market fundamentals for UK residential housing remain positive and the company is well positioned for further growth in its existing markets along with newer markets such as BTR in a sector where safety, service and professionalism are key.

Industry Awards

FirstPort won several awards and accreditations during the year as customer service improved further. These included: Property Management Company of the Year from The Negotiator; New Build Property Management Company of the Year and London Property Manager of the Year from News on the Block; the Government's Cyber Essentials Plus mark, indicating attention to cyber security; 399 WOW! awards from customers to staff who had shown special care, and the British Safety Council 5-star safety award.

The business continues to innovate and there were a number of improvements in back office processes during the year. These were supplemented by a Digital Eagles programme with staff seconded to improve digital skills with customers, staff, and suppliers alike. The Digital Eagles visited hundreds of customer sites to demonstrate the possibilities of digital services, and this was taken up most notably at our retirement developments.

In addition, FirstPort also began further development of its innovative 'Your Property Online' digital application.

Corporate Governance

FirstPort's management team has a clear commitment to professional governance and risk management. Given the high standards of integrity and care expected when managing people's homes, the business is alert to the risk of reputational damage and seeks to mitigate this through high governance standards, including an independent whistleblowing line. The monthly board

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – FIRSTPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

meetings include within its agenda important risk factors and mitigating plans for business continuity, cyber security, the legal and environmental regulatory environment, and maintenance of highest standards of performance and ethics.

We note the Government's commitment to improve the housing market and their reviews into both leasehold and the property service market. FirstPort has long been committed to the highest standards of performance and ethics and is already accredited to the industry standards with independent assessments. We welcome the changes that the Government proposes and anticipate this will further improve customer and consumer trust in our important sector.

People

Our people are our most important asset and in December 2017 we carried out an employee engagement survey. Overall scores were very encouraging. Our average scores were higher than the UK organisation benchmarks and in particular the positive employee Net Promoter Score (eNPS) increased significantly from 2016 showing a highly engaged workforce.

Corporate Social Responsibility

During 2017 FirstPort continue to support Emmaus, a homeless charity that runs communities across the UK providing a home and work for people who have experienced homelessness and social exclusion. Emmaus currently supports 750 formerly homeless people in the UK, and since it started has supported 11,500 homeless people in 29 communities.

It was especially pleasing during the year to see our staff, including our graduate intake, supporting Emmaus and raising a total of £70,000 through fundraising activities. Our sponsorship enabled the charity to build four new rooms in the Emmaus' Hertfordshire community.

As a responsible residential property manager, we are *'more than just bricks and mortar'*. Our commitments – including to the environment, energy, community, charity, engagement and wellness – ensure we consider the societal and environmental impact of our work for the developments we manage, the residents that live in them, and the wider communities in which we operate.

Outlook

2017 was a significant year for FirstPort. Not only has the business achieved good organic growth, it has also undertaken the successful acquisition of property management business Pentland. This brought circa 12,000 units into FirstPort's portfolio of over 184,000 management properties across 3,800 sites and additional skilled managers to provide additional resources for the business's growth plans. Our order book ended the year at over 15,000 units, an increase of 139% on 2016.

With a significantly improved reputation and new contacts with many of the largest investors and developers in the UK's growing housing market, the business is well positioned for future organic growth while exploring earnings enhancing acquisitions.

We therefore look forward to the future with confidence.

Nigel Howell

CEO, FirstPort

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – APPELLO

FOR THE YEAR ENDED 31 DECEMBER 2017

The UK's largest telecare services monitoring company

Appello has over 28 years' experience providing Technology Enabled Care (TECS) and life safety support services which help housing, health and social care organisations to deliver positive differences to the wellbeing of their customers, patients and residents.

Our strategy is to combine our experienced call handlers with smart living technology to create solutions that allow the elderly and vulnerable to remain independent for longer through life-improving health, social inclusion and wellbeing support. At the heart of our capabilities is the UK's leading digital telecare services centre, which is assisting the health, safety and security of 170,000 people throughout the UK.

We use this technology platform, and our wider service capabilities, to supply our housing and care provider customers with services which deliver cost savings and efficiencies, at the same time as enabling them to deliver quality-of-life benefits to their customers.

Our growth strategy is to focus on three primary areas of Monitoring, Smart Living Solutions and Integrated Health Solutions, where we have a proven track record of using our innovative digital technology solutions to evolve products quickly and cost-effectively, based on our customers short, medium and longer term needs. This means Appello can deliver a future-proofed portfolio of integrated solutions.

Financial and operational performance

Our focus on improving the quality of earnings meant that our EBITDA performance improved from a loss of £613k in 2016 to a £39k positive EBITDA in 2017, with a run-rate that delivers further EBITDA growth in future years.

Our strategic decision to exit loss-making maintenance contracts during the year meant revenues declined from £20,928k in 2016 to £20,052k as growth in new services was more than off-set by the deliberate reduction in those unprofitable contracts. Looking ahead our focus is on profitable contracts in the three growth areas outlined above, rather than targeting sectors where our target gross margins are not achievable. As part of our strategy, we are continuing to build a platform for our services-model to drive on-going annuity revenues.

On 5 June 2018, Appello disposed of the trade and assets of its analogue maintenance business for £452k.

Market Backdrop

The widely reported challenges created by the UK's ageing population are felt most acutely in housing, health and social care services. Fundamental change is required to meet these demands and the adoption of digital technology as an enabler of that transformation gained greater momentum in 2017, especially amongst forward thinking organisations.

This creates an excellent environment for Appello to grow and prosper, as our services provide exactly the right blend of service transformation and customer experience improvements that can drive up satisfaction and increase capacity in the system.

The favourable outlook for Appello created by the market conditions is further improved by the need for Housing and Care providers to move from analogue Telecare devices to Digital services as the underlying analogue telephony that they depend on goes end of life and ultimately becomes obsolete during the next 8 years. There are circa 25,000 communal living retirement sites in the UK where this applies and as a market leader in digital systems, Appello is extremely well placed to capitalise on this market event. Consequently our digital activities in 2017 were focused on progressing this opportunity.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – APPELLO

FOR THE YEAR ENDED 31 DECEMBER 2017

Industry data cites that the UK telecare market is estimated to be 1.4 million connections which equates to circa £70m per annum of monitoring spend. Appello are the largest provider in the sector, supporting more than 200,000 connections, nearly twice as many as the next nearest player, giving significant scope for further growth. (Source: B2B Strategy Group).

Key developments and strategic initiatives in 2017

Appello's key developments and strategic initiatives were to capitalise on the opportunities presented by the need to find solutions for the rising costs and complexity of providing life-enhancing support and care for the increasing population of the elderly and vulnerable. During 2017 the market trends further played to Appello's strengths with the increasing awareness of the need for Telecare migration from Analogue to Digital life safety support services.

To progress our opportunities, we have continued to invest in and progress a number of strategic initiatives:

- Building on the work done in 2016, Appello invested significant further R&D into our Smart Living Solutions (SLS) capability - the first end to end digital care solution for sheltered housing or communal retirement living in the UK. The investment allowed us to grow our existing and prospective customers and as a result we quadrupled our in-year sales versus 2016.
- The market leading nature of SLS meant that we were nominated and commended for our Innovation by a number of prestigious industry awards, including The Housing Awards, Housing Excellence Awards and the 24 Housing Awards.
- Our continued investment in our Carenet platform – the largest and most advanced Telecare monitoring capability in the UK – allowed us to retain industry certifications and win a number of the largest contracts that came to market in 2017. We also interconnected the platform with a number of new Internet of Things (IoT) devices and peripherals which we can now include in our propositions, thus broadening our offering and driving further opportunities for growth.
- During the year Appello piloted more integrated health and wellbeing solutions with Care providers, to help them address the acute challenges faced by the health and social care sector. Through these trials we further demonstrated our ability to help individuals stay out of hospital, or return home sooner, and at less cost to the Healthcare system than without our solutions.
- In 2017 Appello continued to contribute thought leadership to the industry's deliberations on how, when and why to make the transition to digital services.
- A major focus of the period was the strategic review of one of our historic lines of business, analogue fire and warden call maintenance. A key activity coming out of the review was renegotiating, or exiting, some of our maintenance contracts which were financially under-performing. These actions reduced the overall losses, but were borne in full during the first part of the year, meaning our Q4 EBITDA run rate is significantly higher than our in-year number.
- As part of our business transformation activity we successfully delivered a number of programmes which delivered better engaged and more effective operational teams. For example a focussed investment in leadership capabilities; site consolidation to improve collaboration by having more teams physically located together; pay and benefits review to ensure appropriate alignment with market rates and structures.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – APPELLO

FOR THE YEAR ENDED 31 DECEMBER 2017

Strategic focus for 2018 and beyond

The current and future climate for the retirement housing sector is challenging with operating models adjusting to a moving policy context and major changes to funding streams as well as welfare reform. These factors are producing a stronger commercial and diversified approach from housing providers, but with a consistent theme of trying to deliver better services for lower cost. This creates an excellent platform for Appello's services and this demand will be further amplified in 2018 and beyond because of the greater need for integration of health and housing to support people in their own communities or specially designed accommodation to secure efficiency savings, productivity improvements and personalisation of care.

These macro factors create a significant opportunity for Appello as our solutions use Digital technology alongside emerging trends such as the Internet of Things (IoT), Cloud, Social and Mobility solutions to improve customer experience and create more effective decision making. Appello's strategy is to grow through a focus on three areas where we have a market lead or unique capabilities.

1. Smart Living Solutions (SLS)

During 2017 we saw the success of our Smart Living Solutions "SLS" strategy as we transformed a further 51 customer developments from analogue to digital services for their residents. This represents the largest deployment of digital telecare in sheltered/communal accommodation in the UK and we are seeing more providers follow suit in 2018.

To get a scale of the opportunity this sector represents for Appello, there are currently circa 25,000 sheltered or communal living retirement schemes in the UK and circa 99% of them are still served by antiquated analogue technology for resident safety and security. These will have to be replaced or updated during the next 8 years as analogue telephony services go end-of-life. Appello Smart Living Solutions represent a step change from these existing analogue systems and allow Housing providers to benefit from improved flexibility, scalability, resilience, data analytics while simultaneously increasing resident safety and wellbeing.

Further evidence of our success and our opportunity was winning and installing SLS in a number of complex needs housing units. This is a sizable adjacent market for Appello and further expands our market scope opportunity.

2. Grow our Telecare monitoring business

The telecare market in the UK is a very fragmented market with circa 230 providers, many of whom are sub-scale so there is an excellent opportunity for Appello to use its position as the largest in the sector to deliver quality and cost benefits to the market. The opportunity for Appello is to win via tender, acquire or become the outsource provider of choice.

As mentioned earlier, industry data estimates the UK telecare market to be 1.4 million connections which equates to circa £70m per annum of monitoring spend. Appello are the largest provider in the sector, supporting more than 200k connections, nearly twice as many as the next nearest player, giving significant scope for further growth. (Source: B2B Strategy Group).

3. Develop further our Integrated Healthcare (IHC) business

Our IHC propositions create an eco-system of Monitoring, IoT devices and Cloud capabilities which can be utilised to provide practical solutions to the common Healthcare problems of bed-blocking in the NHS as well as providing care routes which avoid the necessity to attend, A&E avoidance and provide an earlier/more consistent diagnosis of events and conditions.

To maximise our opportunity in this area we are partnering with a number of health-tech innovators to broaden our offering and address an even wider range of care pathways. In parallel we are exploring with healthcare providers different ways to bring these to the widest possible audience.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – APPELLO

FOR THE YEAR ENDED 31 DECEMBER 2017

Corporate Social Responsibility

As a provider of services to hundreds of thousands of vulnerable adults in the UK, Appello takes its responsibility to do social good very seriously. This extends beyond the provision of our services and deeper into the culture of the organisation.

During 2017 Appello became a supporter of the Blue Lamp Trust, which was established to promote and enhance community safety in Appello's home county of Hampshire. We provided equipment and consultancy services to help them operate their Bobby Scheme, which provides tangible support to vulnerable people in the County, particularly victims of domestic burglary and of domestic violence.

Towards the end of 2017 Appello staff voted on what they would like our annual charity partners to be and two local charities – The Cinnamon Trust and Simon Says - were chosen for us to support in 2018 through various fundraising activities. These will run alongside our continued support for the Blue Lamp Trust.

Recognising our place in the wider world, in the year Appello expanded the number of initiatives we had under way to reduce our carbon footprint. We seek to conduct our business activities in a way that minimises our impact on the environment and therefore we have determined that the following aspects require particular monitoring and controlling:

- Use of Vehicles
- Disposal of controlled wastes for our clients
- Disposal of our own controlled wastes

By controlling and monitoring the above, we are committed to the overall protection of the environment including: seeking to prevent pollution, considerations of end-of-life treatment and the life cycle perspectives of other physical assets under our control.

There are multiple programmes to achieve these aims and as a result of those, we successfully retained our Waste Electrical and Electronic certification, demonstrating that we had the correct procedures in place to handle and dispose of environmentally challenging equipment.

Outlook

Appello is well placed to capitalise on a number of major trends in the UK retirement housing and health sector. As is well known, the population is growing and ageing. By 2039 there will be 9.9 million people in the UK aged over 75, according to the Office of National Statistics, nearly double the number in 2012. That means more appropriate houses for older people will be needed and the types of accommodation required will change, to reflect their diverse needs.

At the same time, attitude towards housing is changing. Today, retirees expect housing that meets their lifestyle preferences. That means housing that supports independence in later life, and that helps them enjoy a sustained quality of life. Appello's digital solutions and services can support this move.

In parallel, pressure is coming from government for health and social care services to develop cost-effective preventive care and support alternatives with greater emphasis on integrated approaches that allow for management of chronic conditions in the home.

Faced with a challenging economy, health service providers like housing associations are looking for new ways to do much more with much less expense. By 2020-21, NHS England could be facing a gap of more than £30bn between NHS budgets and expenditure unless they can start to work differently.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT - BUSINESS & STRATEGIC REVIEW – APPELLO

FOR THE YEAR ENDED 31 DECEMBER 2017

Sustainability and Transformation Plans (STPs) have now been produced by NHS and local government leaders in 44 parts of England. The plans are important, setting out the proposed direction for health and care services over the next five years, covering three broad themes:

- Improving quality and developing new models of care
- Improving health and wellbeing
- Improving efficiency of services.

Given the increase in demand and the consequential rise in healthcare costs, it is essential for our customers to secure efficiency savings and productivity improvements wherever possible.

During 2018 and beyond, Appello will continue to champion greater integration of health and retirement housing and demonstrate how technology can play a greater role in delivering a more person-centric approach. We know from talking to our customers, and from independent research we have conducted, that there is an appetite for change and a move into a digital, insight-led world.

By fusing technology and the unique human capabilities of our leading Telecare monitoring centre, Appello has an essential role to play in paving the way for a future where housing, health and social services have the tools they need to support our citizens in living happier, healthier and more independent lives, for longer.

Tim Barclay

CEO, Appello

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – CORPORATE SOCIAL RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2017

At Knight Square, we recognise the importance of the way in which our portfolio companies operate and we understand that our business operations must be carried out with consideration for the safety and well-being of our people, customers, business partners and the local communities in which they exist and with whom they interact.

We have a variety of initiatives and activities that are designed to address social, ethical and environmental issues. Knight Square Group companies are also members of various associations which promote best working practices, including ARMA and The Institute of Customer Service. Our businesses retained their Investors in People accreditations.

Health & Safety

Knight Square takes its obligations for safety at its office, operational, and development sites very seriously, along with the risks to staff travelling between locations. These obligations extend to staff, residents, visitors, contractors, and members of the public. The risk is mitigated by having a robust health and safety culture with a safety risk register, actions to eliminate or mitigate risks where possible, and monitoring and reporting of accidents and near misses.

We are committed to ensuring staff, customers, members of the public, and anyone who interacts with the Knight Square businesses remain safe and well. Safe working practices are a constant focus for all our teams and we invest in safety training.

Our employees

The Group's policy is to consult and discuss with employees, individually and collectively, on matters likely to affect employees' interests. Information on matters of concern to employees is given through news bulletins that seek to achieve a common awareness on the part of all employees, of all factors affecting the Group's performance.

The Group operates an active equal opportunities policy and we pride ourselves on our diverse workforce. Our success is a result of our employees working together with different competencies and skills, educational backgrounds, ethnicity, religious beliefs and physical abilities, and we judge performance without prejudice or discrimination.

The Group's policy is to enable recruitment of disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate.

Knight Square has undergone considerable change in recent years, and our future success is predicated on the expertise, abilities and dedication of our employees. We expect outstanding performance from our people, and in return we will support them to reach their full potential. Lifelong learning, continuous personal development and the fostering of a strong culture of employee engagement are at the very core of our business and management culture.

FirstPort

Our people are our most important asset and in December 2017 we carried out an employee engagement survey. Overall scores were very encouraging. Our average scores were higher than the UK organisation benchmarks and in particular the employee Net Promoter Score (eNPS) increased from 2016 showing a highly engaged workforce.

For those employees looking to improve their educational standards, we have a dedicated learning and development team that provides in-house training sessions as well as arranging training and examination with professional bodies.

To promote our approach to continuous learning a programme of online courses for all employees has been developed aimed at keeping skills and knowledge current across a range of topics including Health, Safety & Welfare. Site-based staff are encouraged to become involved in structured on the job training.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – CORPORATE SOCIAL RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2017

We have a high performing, 'can do' culture and believe in measuring performance through regular reviews, leagues tables and site visits from senior management. But it is also important to have a little fun along the way and we have regular social events to give colleagues the opportunity to get together in a less formal setting.

FirstPort has always made health and safety its first priority and had already been accredited to British Safety Council 5* health and safety standards in January 2017. The Company was therefore proud when this globally recognised standard was reconfirmed for FirstPort during our December 2017 audit.

Appello

Appello undertakes an annual employee engagement survey with an independent organisation. The business provides feedback results and action plans to employees and remains committed to making improvements as we grow.

The business operates mandatory training including nationally recognised qualifications for a range of topic areas from health and safety and management development to corporate compliance and I.T.

Appello has held IIP status continuously since September 2008 and in July 2015 the business achieved Bronze status as part of its continuous focus on learning and development which has been successfully retained since that date..

Ethical standards and principles

Ethics and transparency are the cornerstones of our corporate principles. We have strong corporate policies and safeguards in place and a history of abiding by and promoting high ethical standards. All employees are responsible for adhering to the business practices that follow the letter and spirit of the law, as well as our Code of Conduct, that reflects the highest standards of corporate and individual behaviour.

Charity and community

We have a responsibility to positively affect the quality of life of our employees, their families and the communities in which we operate. We continue to support and encourage everyone who is involved with both local and national charities and welfare initiatives.

At FirstPort, we are delighted to be the partner of the charity Emmaus, working with them to move closer towards their aim of ending homelessness. Emmaus fully support people in their journey to rebuilding their lives, providing meaningful work as well as a stable home for as long as someone needs it, giving them the skills and self-confidence to get back on their feet.

Emmaus currently supports 750 formerly homeless people in the UK, and since it has started has supported 11,500 homeless people in 29 communities. During the year, FirstPort employees and residents have raised an incredible £70,000 for Emmaus across a number of fundraising activities. The money raised so far has gone towards the creation of four new rooms in the Emmaus Hertfordshire community.

During 2017 Appello became a supporter of the Blue Lamp Trust, which was established to promote and enhance community safety in Appello's home county of Hampshire. We provided equipment and consultancy services to help them operate their Bobby Scheme, which provides tangible support to vulnerable people in the County, particularly victims of domestic burglary and of domestic violence.

Towards the end of 2017 Appello staff voted on what they would like our annual charity partners to be and two local charities – The Cinnamon Trust and Simon Says - were chosen for us to support in 2018 through various fundraising activities. These will run alongside our continued support for the Blue Lamp Trust.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – PRINCIPAL RISKS AND UNCERTAINTIES

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group's principal risks and uncertainties are set out in the table below together with their potential impact on our business and the measures we take to manage and mitigate them.

Knight Square Group

| Risk | Risk Description | Mitigation |
|---|---|--|
| Economic risks and changes in market dynamics | Failure to respond effectively to developments in the broader economy, competition and other market or fiscal dynamics | <ul style="list-style-type: none"> Resilient business model Significant experience and expertise in chosen markets Frequent review of competition Market insight and intelligence |
| Financial management | Failure to maintain appropriate financial controls throughout the business, including the management of debt covenants, credit risk, fraud risk and taxation | <ul style="list-style-type: none"> Experienced finance team Financial control environment Close monitoring of financial performance, debt covenants and credit risk by senior management Board oversight of financial performance |
| Systems dependence and business continuity | The risk associated with the non-delivery and future-proofing of our technology, including the potential impact of business interruption through systems and facilities | <ul style="list-style-type: none"> Investment in appropriate technology and staff IT governance structure IT resilience and disaster recovery plans designed to restore service Business continuity plan for each business operational Office Cyber security accreditation |
| Legal and regulatory compliance | The risk of failing to comply with relevant laws, regulations and Standards including Anti-Money Laundering, Corporate Criminal Offences, Gender Pay Reporting and Modern Slavery | <ul style="list-style-type: none"> Employment of qualified advisors both internally and externally who report regularly to the Board about all significant legislative changes in the UK Development of internal policies and procedures to ensure adequate capture of legal and regulatory compliance issues Maintenance of risk register for all current regulatory issues Training programmes for staff |
| People risk | The risk that we fail to attract and retain high calibre employees in order to deliver on all aspects of our strategy | <ul style="list-style-type: none"> HR strategy encompassing recruitment, reward, retention, talent development and performance management Succession planning for middle and senior management |
| Data protection and privacy risk | The risk of the loss or misuse of customer or employee data | <ul style="list-style-type: none"> Information security policies encompassing data protection Investment in appropriate technology and staff General data protection regulation (GDPR) steering committee Breach register and ICO registration |

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – PRINCIPAL RISKS AND UNCERTAINTIES

FOR THE YEAR ENDED 31 DECEMBER 2017

As well as the above risks, the following principal risks and uncertainties are specific to our operating businesses:

FirstPort

| Risk | Risk Description | Mitigation |
|---------------------------|--|--|
| Health and safety ("H&S") | The risk of breaches of H&S legislation resulting in injuries, environmental damage or physical damage to property leading to financial penalties, reputational damage and delays to site related activities | <ul style="list-style-type: none"> • Dedicated H&S team managed independently from operational businesses under the guidance of H&S Director • Robust H&S culture with safety risk register • Monitoring and reporting of accidents and near misses |
| Contract retention | The risk associated to the dependency on key client contracts and the loss of contracts | <ul style="list-style-type: none"> • Delivery of high-quality customer service • Maintaining a regular dialogue with individual and business customers. • Commitment to the principles set out in its Customer Charter • New contract assessment considering the business's core skills and our established supply chain |
| Reputation | The risk of damage to brand name or reputation either through our people, our behaviours or third parties acting on our behalf | <ul style="list-style-type: none"> • Improvement in customer service and clear complaints processes reduce the risk of issues escalating • Monitoring and responding to customer feedback |

Appello

| Risk | Risk Description | Mitigation |
|---|--|--|
| Health and safety ("H&S") | The risk of breaches of H&S legislation resulting in injuries, environmental damage or physical damage to property leading to financial penalties, reputational damage and delays to site related activities | <ul style="list-style-type: none"> • Robust H&S culture with safety risk register • Monitoring and reporting of accidents and near misses • Accredited H&S training with professional bodies |
| Contract bidding, mobilisation and management | The risk of failure to successfully bid, mobilise, operate and manage contracts leading to 1) unprofitable contracts; 2) failure to win new contracts; and, 3) failure to retain existing business | <ul style="list-style-type: none"> • New contract assessment considering the business's core skills and our established supply chain • Contract bidding process • Delivery of high-quality customer service |
| Reputation | The risk of damage to brand name or reputation either through our people, our systems, our behaviours or third parties acting on our behalf | <ul style="list-style-type: none"> • Delivery of quality customer service through adherence to industry standard SLAs • Clear complaints processes • Monitoring and responding to customer feedback |

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – GOVERNANCE & RISK MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Board & Board Committees

Governance

Knight Square is privately owned and had a board comprising ten directors at 31 December 2017.

Chairman P J Lester has taken on the responsibility for the overall performance of Knight Square Group. FirstPort is headed by its Chief Executive Officer, N Howell, whilst Appello is headed by its Chief Executive Office, T Barclay. Each operating business has its own management and administrative team with an additional small finance function at Group level to manage processes and oversee group policies and governance.

Operation of the Board

The Board meets at least ten times each year to review the Group's strategy and performance. The executives of the Group are regularly invited to attend Board meetings where appropriate. Health and safety performance, any accidents, and lessons from any near-miss events are reviewed and considered at Board meetings.

Committees of the Board

Audit Committee

Knight Square has an audit committee of three non-executive directors - comprising P J Lester (Chair), J L D Crawford, and A J Fortescue. The Audit Committee meets at least twice a year to review the Group's results and internal controls.

The Group's external auditors as well as some senior management members of the group are invited to attend the Audit Committee meetings to report progress against agreed internal control and risk management objectives.

Remuneration Committee

Knight Square Group has a remuneration committee of three non-Executive directors - comprising P J Lester (Chair), J L D Crawford, and A J Fortescue. It meets annually to agree pay rises, bonuses and discuss pay rates; as required.

Internal Control and Risk Management

The Group's approach to internal audit is to agree a risk framework which is reviewed at Board meetings along with mitigating strategies and the latest status of the risks. The Group also maintains and monitors a set of detailed policy documents across all areas of operations. Key areas in which such policies exist include health and safety, procurement, finance and governance (including competition and bribery). The Group utilises the support of external experts to conduct ad hoc reviews of specific areas of the business that the Board considers may present risks to the shareholder.

External Audit

PwC act as external auditors of the Knight Square Holdings Limited Group and its subsidiaries. The performance of the auditors is overseen by the Audit Committee.

KNIGHT SQUARE HOLDINGS LIMITED

STRATEGIC REPORT – GOVERNANCE & RISK MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Financial Risk Management

Knight Square's operations expose it to a variety of financial risks that include the effects of credit, liquidity, cashflow and interest rate risk. Knight Square has in place robust controls that seek to limit the adverse effects in the financial performance of the Group by monitoring potential financial risks to which the Group is subject. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board.

- The Group's exposure to interest rate risk was assessed by management and considered low and it was decided that hedging arrangements were not necessary for the Group's financing.
- The Group has a large base of UK residential and commercial customers which reduces the concentration of credit risk. Where we transact with corporate customers, credit control teams exist within the Group with strict processes being operated to manage and mitigate the risk of non-payment of charges.
- The Group has cash management and forecasting processes in place to manage cashflow and liquidity within our existing financing.

Approval of Strategic Report

This Annual Report comprises a strategic report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiaries when viewed as a whole.

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



Nigel Howell
Director

20 September 2018

KNIGHT SQUARE HOLDINGS LIMITED

DIRECTORS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

Principal activities

The principal activity of the Group is the provision of residential property management and related services within the UK, and that of the company is investment management. Knight Square has two trading businesses - FirstPort and Appello as explained in the Strategic Report on pages 4 to 19.

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

P J Lester
A J Hartley
J L D Crawford
A J Fortescue
A Cooper-Evans
N Howell
M Turner
S Muncer (Appointed 26 June 2017)
T Barclay (Appointed 26 June 2017)
S Watkinson (Appointed 19 July 2017)

Directors' insurance

The group maintains insurance policies on behalf of all the directors against liability arising from negligence, breach of duty and breach of trust in relation to the group.

Results and dividends

The results for the year are set out in the consolidated profit and loss account on page 31.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Employees

Information on employees is included in the Strategic Report on pages 20 and 21.

Future developments

The future developments of the business are discussed in the Strategic Report on pages 4 to 19.

Financial risk management

Information on financial risk management is included in the Strategic Report on page 25.

KNIGHT SQUARE HOLDINGS LIMITED

DIRECTORS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.


The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.



Nigel Howell
Director

20 September 2018

KNIGHT SQUARE HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KNIGHT SQUARE HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Knight Square Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the group and company balance sheets as at 31 December 2017; the consolidated profit and loss account and consolidated statement of comprehensive income; the consolidated statement of cash flows, and the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

KNIGHT SQUARE HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KNIGHT SQUARE HOLDINGS LIMITED (CONTINUED)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 27, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

KNIGHT SQUARE HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KNIGHT SQUARE HOLDINGS LIMITED (CONTINUED)


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Tim Broadway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
20 September 2018

KNIGHT SQUARE HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Note | 2017 £ | 2016 £ |
|--|------|--------------------|-------------------|
| Turnover | 3 | 75,251,499 | 75,427,034 |
| Cost of sales | | (13,177,379) | (13,866,429) |
| Gross profit | | 62,074,120 | 61,560,605 |
| Administrative expenses | | (55,828,418) | (54,930,243) |
| Other operating income | | 53,648 | 23,185 |
| Net gain on investment properties | 4 | 250,895 | 1,326,861 |
| Exceptional items | 5 | (2,070,701) | (2,422,250) |
| Operating profit | 6 | 4,479,544 | 5,558,158 |
| Interest receivable and similar income | | 5,166 | 3,756 |
| Interest payable and similar expenses | 10 | (5,947,731) | (5,405,264) |
| (Loss) / profit before taxation | | (1,463,021) | 156,650 |
| Tax on (loss) / profit | 11 | (1,925,553) | (981,690) |
| Loss for the financial year | | (3,388,574) | (825,040) |
| <i>Loss attributable to:</i> | | | |
| - Owners of the parent | | (3,388,574) | (825,040) |
| - Non-controlling interests | | - | - |
| Loss for the financial year | | (3,388,574) | (825,040) |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

KNIGHT SQUARE HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

| | 2017 £ | 2016 £ |
|--|--------------------|------------------|
| Loss for the financial year | (3,388,574) | (825,040) |
| Other comprehensive income | - | - |
| Total comprehensive expense for the year | <u>(3,388,574)</u> | <u>(825,040)</u> |
| <i>Total comprehensive expense for the year attributable to:</i> | | |
| - Owners of the parent | (3,388,574) | (825,040) |
| - Non-controlling interests | - | - |
| Total comprehensive expense for the year | <u>(3,388,574)</u> | <u>(825,040)</u> |

KNIGHT SQUARE HOLDINGS LIMITED

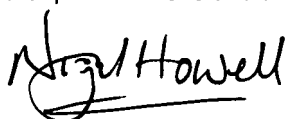
GROUP BALANCE SHEET

AS AT 31 DECEMBER 2017

| | Note | 2017 £ | £ | 2016 £ | £ |
|--|------|--------------------|---|--------------------|---|
| Fixed assets | | | | | |
| Intangible assets | 12 | 32,177,576 | | 31,162,795 | |
| Tangible assets | 13 | 8,074,248 | | 7,046,857 | |
| Investment properties | 14 | - | | 25,541,622 | |
| | | <u>40,251,824</u> | | <u>63,751,274</u> | |
| Current assets | | | | | |
| Inventories | 17 | 1,357,042 | | 1,621,267 | |
| Debtors | 18 | 8,454,822 | | 8,530,657 | |
| Investment properties held for resale | 14 | 26,765,314 | | 4,053,390 | |
| Cash at bank and in hand | | 4,249,561 | | 3,097,567 | |
| | | <u>40,826,739</u> | | <u>17,302,881</u> | |
| Creditors: amounts falling due within one year | 20 | (17,345,275) | | (18,354,031) | |
| Net current assets/(liabilities) | | <u>23,481,464</u> | | <u>(1,051,150)</u> | |
| Total assets less current liabilities | | <u>63,733,288</u> | | <u>62,700,124</u> | |
| Creditors: amounts falling due after more than one year | 21 | 66,442,252 | | 61,175,822 | |
| Provisions for liabilities | 23 | 3,723,473 | | 4,668,165 | |
| Capital and reserves | | | | | |
| Called up share capital | 26 | 91,714 | | 91,714 | |
| Share premium account | 26 | 910,786 | | 910,786 | |
| Profit and loss account | | (7,546,990) | | (4,146,363) | |
| Equity attributable to the owners of the parent | | <u>(6,544,490)</u> | | <u>(3,143,863)</u> | |
| Non-controlling interests | | 112,053 | | - | |
| Total equity | | <u>(6,432,437)</u> | | <u>(3,143,863)</u> | |
| | | <u>63,733,288</u> | | <u>62,700,124</u> | |

The notes on pages 38 to 74 are an integral part of these financial statements.

The financial statements on pages 31 to 74 were approved by the board of directors and authorised for issue on 20 September 2018 and are signed on its behalf by:



Nigel Howell
Director

KNIGHT SQUARE HOLDINGS LIMITED

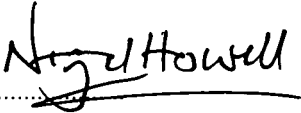
COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2017

| | Note | 2017 £ | £ | 2016 £ | £ |
|---|------|-----------------|------------------|-----------------|------------------|
| Fixed assets | | | | | |
| Investments | 15 | | 960,000 | | 960,000 |
| Current assets | | | | | |
| Debtors | 18 | 77,000 | | 77,000 | |
| Cash at bank and in hand | | 1 | | 1 | |
| | | <u>77,001</u> | | <u>77,001</u> | |
| Creditors: amounts falling due within one year | 20 | <u>(34,501)</u> | | <u>(34,501)</u> | |
| Net current assets | | | 42,500 | | 42,500 |
| Total assets less current liabilities | | | <u>1,002,500</u> | | <u>1,002,500</u> |
| Capital and reserves | | | | | |
| Called up share capital | 26 | | 91,714 | | 91,714 |
| Share premium account | 26 | | 910,786 | | 910,786 |
| Profit and loss account | | | - | | - |
| Total equity | | | <u>1,002,500</u> | | <u>1,002,500</u> |

The notes on pages 38 to 74 are an integral part of these financial statements.

The financial statements on pages 31 to 74 were approved by the board of directors and authorised for issue on 20 September 2018 and are signed on its behalf by:


Nigel Howell
Director

Company Registration No. 07925023

KNIGHT SQUARE HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

| | Called up share capital | Share premium account | Profit and loss account | Equity attributable to the owners of the parent | Non- controlling interest | Total equity |
|--|-------------------------------|-----------------------------|-------------------------------|---|---------------------------------|--------------|
| | £ | £ | £ | £ | £ | £ |
| Balance at 1 January 2016 | 91,714 | 910,786 | (3,321,323) | (2,318,823) | - | (2,318,823) |
| Year ended 31 December 2016: | | | | | | |
| Comprehensive expense for the financial year | - | - | (825,040) | (825,040) | - | (825,040) |
| Balance at 31 December 2016 | 91,714 | 910,786 | (4,146,363) | (3,143,863) | - | (3,143,863) |
| Year ended 31 December 2017: | | | | | | |
| Comprehensive expense for the financial year | - | - | (3,388,574) | (3,388,574) | - | (3,388,574) |
| Total changes in ownership interests in subsidiaries that do not result in a loss of control | | | | | | |
| 31 | - | - | (12,053) | (12,053) | 112,053 | 100,000 |
| Balance at 31 December 2017 | 91,714 | 910,786 | (7,546,990) | (6,544,490) | 112,053 | (6,432,437) |

KNIGHT SQUARE HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Called up share capital £ | Share premium account £ | Profit and loss account £ | Total equity £ |
|-------------------------------------|------------------------------------|----------------------------------|------------------------------------|-------------------|
| Balance at 1 January 2016 | 91,714 | 910,786 | - | 1,002,500 |
| Year ended 31 December 2016: | | | | |
| (Loss) for the financial year | - | - | - | - |
| Balance at 31 December 2016 | 91,714 | 910,786 | - | 1,002,500 |
| Year ended 31 December 2017: | | | | |
| (Loss) for the financial year | - | - | - | - |
| Balance at 31 December 2017 | 91,714 | 910,786 | - | 1,002,500 |

KNIGHT SQUARE HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 £ | £ | 2016 £ | £ |
|---|------|-------------------------|---|-------------------------|---|
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 36 | 5,600,540 | | 8,978,190 | |
| Tax received | | 386,957 | | 189,697 | |
| Net cash generated from operating activities | | <u>5,987,497</u> | | <u>9,167,887</u> | |
| Cash flows from investing activities | | | | | |
| Purchase of tangible assets | | (4,116,414) | | (5,697,858) | |
| Proceeds on disposal of investment property | | 3,080,593 | | 329,690 | |
| Purchase of subsidiaries | | (2,700,102) | | - | |
| Interest received | | 5,166 | | 3,756 | |
| Net cash used in investing activities | | <u>(3,730,757)</u> | | <u>(5,364,412)</u> | |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of shares in subsidiary | | 100,000 | | - | |
| Increase in / (repayment) of bank facility | | 1,500,000 | | (3,000,000) | |
| Borrowings under finance lease | | - | | 2,418,795 | |
| Repayments under finance lease | | (869,978) | | (320,239) | |
| Loan arrangement fees | | (205,063) | | - | |
| Interest paid | | (1,629,705) | | (1,540,947) | |
| Net cash used in financing activities | | <u>(1,104,746)</u> | | <u>(2,442,391)</u> | |
| Net increase / (decrease) in cash and cash equivalents | | <u>1,151,994</u> | | <u>1,361,084</u> | |
| Cash and cash equivalents at beginning of year | | 3,097,567 | | 1,736,483 | |
| Cash and cash equivalents at end of year | | <u><u>4,249,561</u></u> | | <u><u>3,097,567</u></u> | |
| Cash and cash equivalents consists of: | | | | | |
| Cash at bank and in hand | | <u><u>4,249,561</u></u> | | <u><u>3,097,567</u></u> | |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

General information

Knight Square Holdings Limited (the Company) is the parent of the group of companies (the Group) which provides residential property management and related services, and safety and wellbeing services, within the United Kingdom. It operates two businesses:

- FirstPort is the largest residential property management business in the UK with a core service offering organised around six customer/market segments: Luxury, Large and Complex, Property Services, Estates, Build to Rent and Retirement. In addition to its core offerings, FirstPort also provides specialist independent retirement estate agency services, insurance products, and residential lettings.
- Appello is a technology-driven care-at-home services group, which includes telecare and telehealth monitoring, call services and field services such as fire sensor installation and maintenance, security and compliance.

The company is a private company limited by shares and incorporated and domiciled in the United Kingdom. The address of its registered office is Queensway House, 11 Queensway, New Milton, Hampshire, UK, BH25 5NR.

1.1 Statement of compliance

The consolidated financial statements of Knight Square Holdings Limited (the Group), and the separate financial statements of the parent entity (the Company), have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

1.2 Summary of significant accounting policies

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

1.3 Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of investment properties.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.4 Going concern

The Group manages its day-to-day working capital requirements through its bank facilities. The ability of the Group to service its debts obligations is critical to the ongoing trading of the business and we have considered the key factors that could have an impact on trading and whether an adverse change in these factors could affect our ability to meet our liabilities. The Group has a considerable number of on-going management contracts in FirstPort and maintenance contracts in Appello, and accordingly the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and for at least the period of twelve months following the date of approval of these financial statements. The Group and the Company therefore continue to adopt the going concern basis in preparing its financial statements.

1.5 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The Company has taken advantage of the following exemptions:

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes any cash flows of the Company;
- (ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information, to the extent required, is provided in the consolidated financial statement disclosures; and
- (iii) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7, as the information is provided in the consolidated financial statement disclosures.

1.6 Basis of consolidation

The Group's consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 December.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiary undertakings are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of discounts and rebates allowed by the Group and value added taxes.

The Group recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Group retains no continuing involvement in or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Group's sales channels have been met as described below.

Revenue for the key services provided by the Group is recognised as follows:

(i) Residential and commercial property management services

Fees for residential and commercial property management services, including maintenance, are recognised as the Group's obligations under the applicable contracts are delivered to the customer which is typically on a straight-line basis over the period of the contract.

(ii) Monitoring and telecare services

Fees for emergency alarm monitoring services that supports a range of personal alarm and telecare products are recognised as the Group's obligations under the applicable contracts are delivered to the customer which is typically on a straight-line basis over the period of the contract.

(iii) Other revenue

Commissions earned on the placing of insurance products on behalf of third parties are recognised when the Group has completed its services under the arrangements which is the inception date of the underlying insurance policy. Any commission adjustments for additional and return premiums are recognised as they occur.

Fees for installation of the Group's products are recognised when the installation service is completed. Where an installation project lasts for a period of greater than 12 months, the percentage of completion method is applied if the final outcome and profitability of the contract can be assessed with reasonable certainty. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The percentage of completion is determined by the proportion of contract costs incurred to the reporting date compared to the latest estimate of total forecast contract costs. Turnover and cost of sales are recognised in the profit and loss account as contract activity progresses and based on the calculated percentage of completion.

Fees for real estate agency and property transfer services are recognised on completion of the related property sale. Fees for residential lettings arranged by the Group are recognised on execution of binding rental contracts between landlord and tenant.

1.8 Exceptional items

The Group classifies certain non-recurring charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.9 Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received. An accrual is recognised at the balance sheet date for any material remaining obligations to employees.

(ii) Defined contribution pension plans

The Group operates a defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are payable in accordance with the rules of the scheme. Amounts due but not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

(iii) Annual bonus plan

The Group operates annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.10 Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity in which case the related tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is also recognised in relation to assets and liabilities acquired in a business combination where the amount that will be deducted or assessed for tax differs to the fair value at which the asset or liability is recognised on acquisition in the financial statements. The tax base of an asset or liability is determined based on the expected manner of recovery. Investment properties and land are deemed to have recovery via disposal and accordingly the UK capital gains regime is applied when estimating the tax base of these assets.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities arise from income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an ability and intention to settle the balances at the same time.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.11 Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGUs') that are expected to benefit from the combination.

Goodwill held as at 31 December 2017 includes amounts which relate to business combinations that occurred prior to 1 January 2014. The Group has applied the optional exemption provided in FRS 102 35.10(a) and not applied section 19 'Business Combinations and Goodwill' to these business combinations. At the date of these business combinations, the expected useful lives of the goodwill was assessed as being 20 years. This goodwill continues to be amortised over the remaining useful economic life. For business combinations which occur after 1 January 2014, goodwill will be amortised over the expected useful life as assessed at the date of the business combination. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss account.

1.12 Intangible fixed assets other than goodwill

Intangible assets acquired in a business combination are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following basis:

Customer lists straight-line over 5 to 10 years

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.13 Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

| | |
|---|------------------------------------|
| Freehold buildings | straight-line over 50 years |
| Leasehold buildings | straight-line over period of lease |
| Office equipment, fixtures and fittings | straight-line over 3 to 5 years |
| Motor vehicles | straight-line over 5 years |

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit and loss account and included in other operating income.

1.14 Investment properties, including assets held for sale

The Group's interests in leasehold apartments within residential development sites are classified as investment properties and included within non-current assets.

Investment properties are initially recognised at cost, which for the Group was the fair value from acquisition in a business combination. Subsequent to initial recognition investment properties are recognised at fair value through profit and loss. The fair value of investment properties is determined using valuation techniques to estimate their current market values, taking into consideration the timing and impact of any encumbrances to sale.

From time to time the Group makes selected investment properties available for sale where the demand in a location warrants the cost of marketing and sales. Where the likelihood of sale within the next financial year is probable, the property is classified as held for resale and included within current assets, and is recognised at fair value less costs to sell.

1.15 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.16 Borrowing costs

All borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

1.17 Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

1.18 Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash-generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash-generating unit) is compared to the carrying amount of the asset (or asset's cash-generating unit).

The recoverable amount of the asset (or asset's cash-generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash-generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash-generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the profit and loss account. Goodwill is allocated on acquisition to the cash-generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash-generating units for impairment testing. Any previous impairment of goodwill is not reversed.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.19 Inventories

Inventories consist of consumables and raw materials used in maintenance services and monitoring products for resale which are stated at the lower of cost and estimated selling price less costs to sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting year inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

1.20 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts.

For the purpose of the consolidated statement of cash flows the Group adopts an accounting policy of classifying interest receipts as an investing cash flow and interest payments as a financing cash flow. Taxation cash flows are classified as operating cash flows.

1.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured based on the Group's best estimate at the reporting date of the expenditures expected to be required to settle the obligation discounted to the present value, where material.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.22 Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, and cash and bank balances, are initially recognised at transaction price.

At the end of each reporting year financial assets measured at amortised cost are assessed for objective evidence of impairment with any impairment being charged to profit and loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank and shareholder's loans, amounts owed to fellow Group companies and bank overdrafts, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees and costs directly related to the issue of bank and shareholder's loans are recognised as transaction costs of the loan and are included within the calculation of the interest payable on the loan based on the effective interest rate method over the expected life of the loan. Bank and shareholder loans are classified as current or non-current based upon the amounts that the Group are contractually obliged to settle within twelve months of the reporting date.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Client monies held

The property management services performed by the Group include services provided to residential management companies and which involve arranging and holding cash from levies and charges paid by residents to the residential management companies. The cash held at any point in time is held under Statutory Trust as set out in the Landlord & Tenant Act 1987. Accordingly, the Group does not include these cash balances in its balance sheet.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.24 Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

2 Critical accounting judgements and estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

(a) Critical accounting judgements in applying the Group's accounting policies

(i) Classification of leasehold apartments as investment properties

The Group's interests in leasehold apartments within residential development sites are classified as investment properties and included within non-current assets. In applying this classification the Group has considered several factors including: the apartments are typically used by house managers; the apartments are not used by the Group for any other administrative purposes; the Group does not typically earn rental income from the apartments, but does benefit from capital appreciation in the open market value of the apartments; the apartments are periodically made available for sale by the Group and hence gains in value are crystallised; the fair value of the apartments can be readily attained in a manner that is not considered to require undue cost or effort on the part of the Group.

(b) Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Fair value of investment properties

The fair value of investment properties are determined using valuation techniques to estimate the current market values of the Group's investment property portfolio, taking into consideration the timing and impact of any encumbrance to sale. The Group periodically engages independent valuation experts in assessing fair value.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Critical accounting judgements and estimation uncertainty (Continued)

(ii) Impairment of intangible assets

The Group considers annually whether an indicator of goodwill impairment exists. Where an indication of impairment exists management are required to estimate the recoverable value of the cash-generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

(iii) Development related provisions

The Group manages a large number of commercial and residential property developments, which give rise to some disputes and claims by customers under the management contracts that govern them. These claims can take many years to emerge, so management considers it appropriate to recognise a provision. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

(iv) Deferred tax assets

The recognition of deferred tax assets, particularly relating to previously incurred losses, requires judgement, including in relation to the future taxable profits of the entities that incurred the losses, the types of losses and future income, the utilisation of capital allowances in any year, and the extent of group relief transfers to be made across the Group.

3 Turnover

An analysis of the group's turnover is as follows:

| | 2017 £ | 2016 £ |
|---|-------------------|-------------------|
| Turnover by category | | |
| Residential and commercial property management services | 59,456,715 | 59,650,125 |
| Monitoring and telecare | 7,930,330 | 8,046,281 |
| Other revenue | 7,864,454 | 7,730,628 |
| | <u>75,251,499</u> | <u>75,427,034</u> |

All turnover is generated in the UK.

4 Net gain on investment properties

| | 2017 £ | 2016 £ |
|--|----------------|------------------|
| Net gain from investment properties comprises: | | |
| Loss on disposals | (364,356) | (424,084) |
| Investment property fair value movement | 615,251 | 1,750,945 |
| | <u>250,895</u> | <u>1,326,861</u> |

A revaluation gain of £615k (2016: £1,751k) was recognised on the FirstPort development manager properties as part of the annual revaluation of that portfolio. The increase in value caused by house price inflation was offset by provisions against properties for which the company has no right to the economic benefits of disposal.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Exceptional items

| | 2017 £ | 2016 £ |
|---|------------------|------------------|
| Restructuring costs | 1,169,638 | 3,522,250 |
| Investment property fair value movement | - | (1,100,000) |
| Contract termination | 501,000 | - |
| Other exceptional items | 400,063 | - |
| | <u>2,070,701</u> | <u>2,422,250</u> |

Exceptional charges relate to restructuring and redundancy costs incurred in FirstPort and Appello and the costs associated with cancelling a contract for the delivery of office equipment and related services in FirstPort. During the prior year there was an upward revaluation of £1,100k relating to certain freehold reversionary interests which had been fully written down in previous years.

6 Operating profit

| | 2017 £ | 2016 £ |
|---|------------------|------------------|
| Operating profit for the year is stated after charging: | | |
| Depreciation of owned tangible assets | 3,190,634 | 2,625,589 |
| Impairment of owned tangible assets | - | 69,443 |
| Loss on disposal of tangible assets | 57,328 | 8,493 |
| Amortisation of intangible assets | 2,182,607 | 2,073,942 |
| Cost of inventories recognised as an expense | 3,395,693 | 3,683,311 |
| Impairment of trade debtors | 44,779 | 94,793 |
| Operating lease charges | <u>1,143,354</u> | <u>1,829,589</u> |

7 Auditors' remuneration

| | 2017 £ | 2016 £ |
|--|----------------|----------------|
| Fees payable to the company's auditors and their associates: | | |
| Fees payable to the Company's auditors for the audit of the Parent Company and the Group's Consolidated financial statements | 42,517 | 41,000 |
| Fees payable to the Company's auditor for other services: | | |
| - The audit of the Company's subsidiaries | 252,765 | 172,598 |
| - Audit related assurance services | 52,267 | 55,402 |
| - Tax compliance services | 65,500 | 48,050 |
| - Tax advisory services | 89,000 | 149,448 |
| - Other services | 362,118 | 88,350 |
| | <u>864,167</u> | <u>554,848</u> |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

8 Employees

The average monthly number of persons (including directors) employed by the group during the year was:

| | 2017 Number | 2016 Number |
|-----------------------------|----------------|----------------|
| Office and management | 1,137 | 1,140 |
| House managers and deputies | 2,113 | 1,962 |
| | <u>3,250</u> | <u>3,102</u> |

Their aggregate remuneration comprised:

| | 2017 £ | 2016 £ |
|-----------------------|-------------------|-------------------|
| Wages and salaries | 34,552,715 | 35,483,988 |
| Social security costs | 3,494,688 | 3,368,374 |
| Other pension costs | 659,043 | 615,566 |
| | <u>38,706,446</u> | <u>39,467,928</u> |

House managers are employed by the Group to oversee individual developments managed by the Group. The employment cost of house managers is not included in the above table as these costs are recharged at cost to the developments managed by the Group and therefore are not a cost to the Group on account of the Group being an agent for this transaction. These amounted to wages and salary costs of £31,955,249 (2016: £31,147,411) social security costs of £2,101,263 (2016: £2,025,597) and other pension costs of £270,406 (2016: £272,831).

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9 Directors' remuneration

| | 2017 £ | 2016 £ |
|----------------------|----------------|----------------|
| Aggregate emoluments | 784,296 | 540,365 |
| | <u>784,296</u> | <u>540,365</u> |

The number of directors for whom retirement benefits are accruing under defined contributions schemes was 2 (2016: nil)

4 directors (2016: 2) were paid by the Group. The remaining directors did not receive fees or salary from the Group. The emoluments disclosed above are from the date which the individual became a director of the Company.

Remuneration disclosed above includes the following amounts paid to the highest paid director:

| | 2017 £ | 2016 £ |
|----------------------|----------------|----------------|
| Aggregate emoluments | 375,715 | 340,365 |
| | <u>375,715</u> | <u>340,365</u> |

Company

The Company has no employees (2016: nil).

10 Interest payable and similar expenses

| | 2017 £ | 2016 £ |
|--|------------------|------------------|
| Interest on bank loans and overdrafts | 1,567,809 | 1,521,177 |
| Interest on finance leases and hire purchase contracts | 56,730 | 34,008 |
| Interest on shareholder loans | 3,979,174 | 3,544,505 |
| Loan fee amortisation | 344,018 | 305,574 |
| | <u>5,947,731</u> | <u>5,405,264</u> |

Debt issue costs, including loan amortisation fees, which are directly incurred in arrangement of borrowing facilities are included within the calculation of the effective interest rate on the borrowing, but are disclosed separately as the Group consider this information aids in the understanding of the total financing costs.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 Tax on (loss) / profit

| | 2017 £ | 2016 £ |
|---|-----------|-----------|
| Current tax | | |
| UK corporation tax on profit for the current year | 1,225,299 | 526,905 |
| Adjustments in respect of prior years | 82,285 | (312,027) |
| | <hr/> | <hr/> |
| Total current tax | 1,307,584 | 214,878 |
| | <hr/> | <hr/> |
| Deferred tax | | |
| Changes in tax rates | 18,009 | (174,387) |
| Origination and reversal of timing differences | (352,203) | 838,190 |
| Adjustments in respect of prior years | 952,163 | 103,009 |
| | <hr/> | <hr/> |
| Total deferred tax | 617,969 | 766,812 |
| | <hr/> | <hr/> |
| Total tax charge for the year | 1,925,553 | 981,690 |
| | <hr/> | <hr/> |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 Tax on (loss) / profit (Continued)

The charge for the year can be reconciled to the (loss) / profit before taxation per the profit and loss account as follows:

| | 2017 £ | 2016 £ |
|--|-------------|-----------|
| (Loss) / profit before taxation | (1,463,021) | 156,650 |
| Expected tax (credit) / charge based on a corporation tax rate of 19.25% (2016: 20%) | (281,156) | 31,330 |
| Non-deductible expenses | 1,212,821 | 1,301,724 |
| Income not taxable | (35) | 2,646 |
| Adjustments in respect of prior years | 1,034,448 | (209,018) |
| Effect of changes in tax rates and laws | 18,009 | (174,387) |
| Group relief | 2,474 | 66,702 |
| Gains / (rollover) relief | (61,008) | (141,147) |
| Deferred tax on non-qualifying assets | - | 103,840 |
| Total tax charge for the year | 1,925,553 | 981,690 |

Changes to the UK corporation tax rates were enacted as part of the Finance (No.2) Act 2015 which received Royal Assent on 18 November 2015 and Finance Act 2016 which received Royal Assent on 15 September 2016. These include reductions to reduce the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

Deferred tax balances at 31 December 2017 were measured at 19% (2016: 19%) for items that are expected to be charged or credited to the profit and loss account in the next financial year. Deferred tax liabilities recognised in respect of investment properties that are not expected to be sold in the next financial year have been recognised at 17% (2016: 19%).

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

12 Intangible assets

| Group | Goodwill | Customer List | Total |
|--|------------|---------------|------------|
| | £ | £ | £ |
| Cost | | | |
| At 1 January 2017 | 41,047,291 | 112,470 | 41,159,761 |
| Acquisitions | 1,305,094 | 1,892,294 | 3,197,388 |
| At 31 December 2017 | 42,352,385 | 2,004,764 | 44,357,149 |
| Accumulated amortisation and impairment | | | |
| At 1 January 2017 | 9,944,478 | 52,488 | 9,996,966 |
| Amortisation charge for the year | 2,112,805 | 69,802 | 2,182,607 |
| At 31 December 2017 | 12,057,283 | 122,290 | 12,179,573 |
| Carrying amount | | | |
| At 31 December 2017 | 30,295,102 | 1,882,474 | 32,177,576 |
| At 31 December 2016 | 31,102,813 | 59,982 | 31,162,795 |

On 17 July 2017 the group acquired 100% of the share capital of Pentland Estate Management Limited for a purchase consideration of £2,700,000 paid in cash. £2,500,000 was paid on completion and £200,000 paid on 31 December 2017. There were transaction costs of £218,705.

Upon acquisition, the business had net assets with a fair value of £43,007. An intangible asset relating to the acquired business's customer relationships was identified and its fair value was measured at £1,892,294.

A deferred tax liability of £321,690 has been recognised on the intangible assets which has been added to goodwill.

The Company had no intangible assets at 31 December 2017 or 31 December 2016.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Tangible assets

| Group | Leasehold buildings | Office equipment, fixtures & fittings | Motor vehicles | Total |
|--|------------------------|---|----------------|-------------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2017 | 719,762 | 25,837,382 | 6,029 | 26,563,173 |
| Additions | 8,055 | 4,267,298 | - | 4,275,353 |
| Disposals | (19,357) | (1,251,645) | (4,716) | (1,275,718) |
| At 31 December 2017 | 708,460 | 28,853,035 | 1,313 | 29,562,808 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2017 | 405,647 | 19,108,593 | 2,076 | 19,516,316 |
| Depreciation charged in the year | 55,335 | 3,134,753 | 546 | 3,190,634 |
| Disposals | (19,357) | (1,197,722) | (1,311) | (1,218,390) |
| At 31 December 2017 | 441,625 | 21,045,624 | 1,311 | 21,488,560 |
| Carrying amount | | | | |
| At 31 December 2017 | 266,835 | 7,807,411 | 2 | 8,074,248 |
| At 31 December 2016 | 314,115 | 6,728,789 | 3,953 | 7,046,857 |

The net carrying amount of assets held under finance leases included in office equipment, fixtures and fittings is £1,230,481 (2016: £2,468,013).

The company had no tangible assets at 31 December 2017 or 31 December 2016.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14 Investment properties

| | Group 2017 £ | Company 2017 £ |
|---------------------------------------|--------------------|----------------------|
| At 1 January 2017 | | |
| Investment properties | 25,541,622 | - |
| Investment properties held for resale | 4,053,390 | - |
| | <u>29,595,012</u> | <u>-</u> |
| Total investment properties | 29,595,012 | - |
| | <u>(3,444,949)</u> | <u>-</u> |
| Disposals | (3,444,949) | - |
| Fair value movement | 615,251 | - |
| | <u>26,765,314</u> | <u>-</u> |
| At 31 December 2017 | 26,765,314 | - |
| At 31 December 2017 | | |
| Investment properties | - | - |
| Investment properties held for resale | 26,765,314 | - |
| | <u>26,765,314</u> | <u>-</u> |
| Total investment properties | 26,765,314 | - |

Investment property comprises the Group's interest in leasehold apartments within residential developments. The fair value of investment properties are determined using valuation techniques to estimate the current market values of the Group's investment property portfolio, taking into consideration the timing and impact of any encumbrance to sale. The Group engaged independent valuation experts in assessing fair value as at 31 December 2017 and 31 December 2016.

Investment properties held for sale represents those investment properties where the likelihood of sale in the next financial year is considered probable.

On 24 May 2018, FirstPort disposed of substantially all of its portfolio of investment properties, receiving net proceeds after sales costs of £20.1 million in cash.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Investments

| | Note | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|-----------------------------|------|--------------------|-----------|----------------------|-----------|
| Investments in subsidiaries | 34 | - | - | 960,000 | 960,000 |

Movements in investments

Company

Cost

At 1 January 2017 & 31 December 2017 960,000

Carrying amount

At 31 December 2017 960,000

At 31 December 2016 960,000

The directors believe that the carrying value of the investments is not more than their recoverable amount as supported by their underlying assets.

16 Financial instruments

| | 2017 £ | 2016 £ |
|---|-------------------|-------------------|
| Carrying amount of financial assets | | |
| Debt instruments measured at amortised cost | 11,565,514 | 9,611,978 |
| | <u>11,565,514</u> | <u>9,611,978</u> |
| Carrying amount of financial liabilities | | |
| Measured at amortised cost | 81,261,102 | 78,655,675 |
| | <u>81,261,102</u> | <u>78,655,675</u> |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17 Inventories

| | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|-------------------------------------|--------------------|------------------|----------------------|-----------|
| Raw materials and consumables | 901,055 | 1,035,835 | - | - |
| Long term contract balances | | | | |
| - Net cost less foreseeable losses | 358,250 | 429,915 | - | - |
| Finished goods and goods for resale | 97,737 | 155,517 | - | - |
| | <u>1,357,042</u> | <u>1,621,267</u> | <u>-</u> | <u>-</u> |

There is no significant difference between the replacement cost of inventories and its carrying amount. Inventories are stated after provisions for impairment of £240,777 (2016: £216,856).

18 Debtors

| | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|---|--------------------|------------------|----------------------|---------------|
| Amounts falling due within one year: | | | | |
| Trade debtors | 2,526,294 | 3,907,511 | - | - |
| Corporation tax recoverable | - | 160,472 | - | - |
| Amounts owed by group undertakings | - | - | 77,000 | 77,000 |
| Other debtors | 3,275,274 | 1,590,334 | - | - |
| Prepayments and accrued income | 2,653,254 | 2,872,340 | - | - |
| | <u>8,454,822</u> | <u>8,530,657</u> | <u>77,000</u> | <u>77,000</u> |

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

19 Client monies

Residents' net cash balances held in trust accounts at 31 December 2017 were £232,408,632 (2016: £241,845,044). Cash balances held in joint accounts at 31 December 2017 were £4,083,164 (2016: £4,178,663).

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20 Creditors: amounts falling due within one year

| | | Group 2017 | 2016 | Company 2017 | 2016 |
|------------------------------------|------|-------------------|-------------------|-----------------|---------------|
| | Note | £ | £ | £ | £ |
| Trade creditors | | 3,164,163 | 3,949,681 | - | - |
| Amounts owed to group undertakings | | - | - | 34,001 | 34,001 |
| Other creditors | | 2,256,403 | 3,115,642 | 500 | 500 |
| Corporation tax payable | | 1,609,070 | - | - | - |
| Other taxation and social security | | 729,851 | 874,174 | - | - |
| Finance leases | 22 | 423,946 | 824,421 | - | - |
| Accruals and deferred income | | 9,161,842 | 9,590,113 | - | - |
| | | <u>17,345,275</u> | <u>18,354,031</u> | <u>34,501</u> | <u>34,501</u> |

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

21 Creditors: amounts falling due after more than one year

| | | Group 2017 | 2016 | Company 2017 | 2016 |
|-------------------------------------|------|-------------------|-------------------|-----------------|----------|
| | Note | £ | £ | £ | £ |
| Bank loans (net of financing costs) | 22 | 27,298,250 | 25,541,490 | - | - |
| Shareholder loans | 22 | 14,086,500 | 14,086,500 | - | - |
| Interest on shareholder loans | 22 | 24,252,870 | 20,273,696 | - | - |
| Finance leases | 22 | 804,632 | 1,274,136 | - | - |
| | | <u>66,442,252</u> | <u>61,175,822</u> | <u>-</u> | <u>-</u> |

22 Borrowings

| | | Group 2017 | 2016 | Company 2017 | 2016 |
|-------------------------------|--|-------------------|-------------------|-----------------|----------|
| | | £ | £ | £ | £ |
| Bank loans | | 28,000,000 | 26,500,000 | - | - |
| Shareholder loans - principal | | 14,086,500 | 14,086,500 | - | - |
| Interest on shareholder loans | | 24,252,870 | 20,273,696 | - | - |
| Deferred financing costs | | (701,750) | (958,510) | - | - |
| Finance leases | | 1,228,578 | 2,098,557 | - | - |
| | | <u>66,866,198</u> | <u>62,000,243</u> | <u>-</u> | <u>-</u> |
| Payable within one year | | 423,946 | 824,421 | - | - |
| Payable after one year | | <u>66,442,252</u> | <u>61,175,822</u> | <u>-</u> | <u>-</u> |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

22 Borrowings (Continued)

Bank loans

The Group has a revolving credit facility which had an initial commitment of £35.0m reducing by £1.0m every six months from 31 October 2015 to a minimum facility level of £30.0m by 31 October 2017 with an expiry date of 30 September 2019. During the year, the facility was renegotiated to remove the amortisation of the commitment and reset the total commitment to £35.0m until its expiry date which remained unchanged. On 2 August 2018 the facility was further amended to extend the expiry date to 30 September 2020. Funds available under the facility at 31 December 2017 were £35.0m (2016: £32.0m). Interest on the facility is payable at LIBOR plus 3.75% and is cash settled six monthly. The facility is secured by a composite mortgage debenture over the shares, rights and assets of Group subsidiaries.

Shareholder loans

Shareholder loans of £14,086,500 (2016: £14,086,500), are divided into £1,146,154 (2016: £1,146,154) of Senior Loan Notes and £12,940,346 (2016: £12,940,346) of Junior Loan Notes. Interest is payable on the outstanding balance at a rate of 15% per annum on the Senior Loan Notes and 9% on the Junior Loan Notes. Interest on both the Senior and Junior Loan Notes is settled annually on 31 December by, at the Group's option, either the issue of Payment in Kind (PIK) Notes which rank ahead of the original notes or by deferral in which case compound interest will apply to the amount deferred.

At 31 December 2017, the cumulative interest outstanding on these Loan Notes totalled £24,252,870 (2016: £20,273,696), which is split into £15,850,021 (2016: £13,633,129) Senior Loan Note interest and £8,402,849 (2016: £6,640,567) Junior Loan Note interest. Repayment of the Junior Loan Notes is due on the earlier of 2 March 2020 or exit and on the Senior Loan Notes the earlier of 2 March 2019 and exit. Senior Loan Notes rank ahead of Junior Loan Notes.

On 2 August 2018, the entire principal and accrued interest on the 15% Senior Loan Notes due 2019 was repaid in full and £1.2 million of accrued interest on the Group's 9% Junior Loan notes due 2020 was repaid. On the same day the term of the 9% Junior Loan Notes was extended to 2 March 2021.

Deferred financing costs

Deferred financing costs are amortised over the period of the revolving credit facility via inclusion within the effective interest rate.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

22 Borrowings (Continued)

Finance leases

| | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|--|--------------------|-----------|----------------------|-----------|
| Future minimum finance lease payments: | | | | |
| Not later than one year | 426,473 | 880,577 | - | - |
| Later than one year and not later than 5 years | 830,399 | 1,303,289 | - | - |
| Later than 5 years | - | - | - | - |
| Total gross payments | 1,256,872 | 2,183,866 | - | - |
| Less: finance charges | (28,294) | (85,309) | - | - |
| Carrying amount of liability | 1,228,578 | 2,098,557 | - | - |

The finance lease relates to certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 36 months. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The finance lease is secured by a composite mortgage debenture over shares, rights and assets of Group subsidiaries.

23 Provisions for liabilities

| | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|--------------------------------|--------------------|-----------|----------------------|-----------|
| Legal provisions | - | 610,277 | - | - |
| Onerous contracts provisions | - | 481,570 | - | - |
| Development related provisions | 507,311 | 1,298,029 | - | - |
| Deferred tax liabilities | 3,216,162 | 2,278,289 | - | - |
| | 3,723,473 | 4,668,165 | - | - |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

23 Provisions for liabilities (Continued)

Movements on legal, onerous contract and development related provisions:

| Group | Legal provisions £ | Onerous contract provisions £ | Development related provisions £ | Total £ |
|--------------------------|-----------------------|----------------------------------|-------------------------------------|-------------|
| At 1 January 2017 | 610,277 | 481,570 | 1,298,029 | 2,389,876 |
| Reversal of provision | - | - | (390,000) | (390,000) |
| Utilisation of provision | (610,277) | (481,570) | (400,718) | (1,492,565) |
| At 31 December 2017 | - | - | 507,311 | 507,311 |

During the prior year, the Group terminated a number of contracts within its engineering division which management had identified as onerous. As such, a provision reflecting the least cost of exiting those contracts has been made in these financial statements. In the current year, all of these contracts finished and the provisions were utilised against the losses incurred.

During the prior year the Group made a provision to cover the cost of the expected fine and associated legal costs in relation to a fire incident at a development dated from 2011. The fine was settled during the year and the provision was utilised.

The Group manages a large number of commercial and residential property developments, which give rise to some disputes and claims by customers under the management contracts that govern them. These claims can take many years to emerge, so management considers it appropriate to recognise a provision. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Whilst significant progress has been made in addressing these claims, and management continue to assess them on their merits, a provision of £507,311 has been recognised at the year end (2016: £1,298,029). This is expected to be utilised over a period of up to five years, with an estimated £101,450 (2016: £259,605) expected to be settled within the next financial year.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

24 Deferred taxation

Deferred tax assets and liabilities are offset where the Group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | Liabilities 2017 £ | Liabilities 2016 £ | Assets 2017 £ | Assets 2016 £ |
|--------------------------------|--------------------------|--------------------------|---------------------|---------------------|
| Group | | | | |
| Fixed asset timing differences | - | - | 601,016 | 928,230 |
| Short-term timing differences | - | - | 34,430 | 50,532 |
| Losses | - | - | 420,079 | 1,600,491 |
| Investment property | (4,271,687) | (4,857,542) | - | - |
| | <u>(4,271,687)</u> | <u>(4,857,542)</u> | <u>1,055,525</u> | <u>2,579,253</u> |

| | Group £ | Company £ |
|--|--------------------|--------------|
| Movements in the year: | | |
| Liability at 1 January 2017 | (2,278,289) | - |
| Charge to profit and loss account | (617,969) | - |
| Acquisitions | 1,786 | - |
| Charged to goodwill - customer list intangible | (321,690) | - |
| | <u>(3,216,162)</u> | <u>-</u> |
| Liability at 31 December 2017 | <u>(3,216,162)</u> | <u>-</u> |

The Group has an unrecognised deferred tax asset of approximately £765,253 (2016: £770,881) for losses carried forward.

The losses carried forward will be utilised as and when the relevant group company makes qualifying taxable profits.

Company

The Company has no deferred tax provision at 31 December 2017 (2016: £nil).

25 Retirement benefit schemes

| | 2017 £ | 2016 £ |
|-------------------------------------|----------------|----------------|
| Defined contribution schemes | | |
| Charge to profit and loss account | <u>659,043</u> | <u>615,566</u> |

The Group sponsors and contributes to a defined contribution scheme for its employees. Pension contributions outstanding and included in accruals at the year end amounted to £206,075 (2016: £308,817).

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

26 Called up share capital and share premium account

| | Group and company | | | |
|---|-------------------------|---------------|-----------------------|----------------|
| | Called up share capital | | Share premium account | |
| | 2017 | 2016 | 2017 | 2016 |
| | £ | £ | £ | £ |
| Ordinary share capital | | | | |
| Issued and fully paid | | | | |
| 741,433 (2016: 741,433) A Ordinary shares of £0.000001 each | 1 | 1 | 741,432 | 741,432 |
| 183,567 (2016: 183,567) B Ordinary shares of £0.20 each | 36,713 | 36,713 | 146,854 | 146,854 |
| 55,000 (2016: 55,000) C Ordinary shares of £1 each | 55,000 | 55,000 | - | - |
| 12,500 (2016: 12,500) D Ordinary shares of £0.000001 each | - | - | 12,500 | 12,500 |
| 10,000 (2016: 10,000) G Ordinary shares of £0.000001 each | - | - | 10,000 | 10,000 |
| | <u>91,714</u> | <u>91,714</u> | <u>910,786</u> | <u>910,786</u> |

The Ordinary A, B, C & D shares carry no voting rights, except for the variation of class rights, whereas the Ordinary G shares carry one vote per share.

All classes of shares have the right to receive dividends subject to the Ordinary G shares first receiving 10% of the subscription price.

All classes of shares have the right to a return of capital.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

27 Business combinations

On 17 July 2017 the group acquired 100% of the share capital of Pentland Estate Management Limited for a purchase consideration of £2,700,000 paid in cash. £2,500,000 was paid on completion and £200,000 paid on 31 December 2017. There were transaction costs of £218,705.

| | Book Value | Adjustments | Fair Value |
|---|------------|-------------|------------|
| | £ | £ | £ |
| Deferred Income Tax Assets | 1,786 | - | 1,786 |
| Trade and other receivables | 149,143 | (5,977) | 143,166 |
| Cash and cash equivalents | 218,603 | - | 218,603 |
| Trade and other payables | (188,885) | (56,663) | (245,548) |
| Corporation tax payable | (75,000) | - | (75,000) |
| Intangible assets | - | 1,892,294 | 1,892,294 |
| Deferred tax liability | - | (321,690) | (321,690) |
| Total identifiable net assets | 105,647 | 1,507,964 | 1,613,611 |
| Goodwill | | | 1,305,094 |
| Total consideration | | | 2,918,705 |
| The consideration was satisfied by: | | | £ |
| Cash | | | 2,918,705 |
| Contribution by the acquired business for the reporting period since acquisition: | | | £ |
| Turnover | | | 876,241 |
| Profit | | | 164,828 |

Upon acquisition, the business had net assets with a fair value of £43,007. An intangible asset relating to the acquired business's customer relationships was identified and its fair value was measured at £1,892,294. A deferred tax liability of £321,690 has been recognised on the intangible assets which has been added to goodwill.

The customer relationship intangible asset has been attributed a useful life of 10 years.

On 15 August 2017 the company's name was changed to FirstPort Property Services No.4 Limited.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

28 Operating lease commitments

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

| | Group 2017 £ | 2016 £ | Company 2017 £ | 2016 £ |
|----------------------------|--------------------|------------------|----------------------|-----------|
| Within one year | 1,575,184 | 1,400,461 | - | - |
| Between two and five years | 2,281,603 | 2,340,605 | - | - |
| In over five years | 264,599 | 367,080 | - | - |
| | <u>4,121,386</u> | <u>4,108,146</u> | <u>-</u> | <u>-</u> |

29 Contingent liabilities

The Group is party to a composite mortgage debenture secured over all of its assets in favour of the Royal Bank of Scotland, as referred to in note 22. The Borrower is Knight Square Limited, a subsidiary company. The loan balance and accrued interest payable outstanding at the balance sheet date were £28,000,000 (2016: £26,500,000) and £52,363 (2016: £65,917) respectively.

A number of bank accounts maintained for developments under management (and included in Client Monies described in note 19) were overdrawn at 31 December 2017 amounting to £5,726 (2016: £3,140). The Group have given unlimited guarantees on these amounts in the event of default.

The finance lease is secured by a composite mortgage debenture over shares, rights and assets of Group subsidiaries.

30 Events after the reporting date

On 24 May 2018, FirstPort disposed of substantially all of its portfolio of investment properties, receiving £20.1 million in net proceeds in cash.

On 5 June 2018, Appello entered into an agreement to dispose of the trade and assets of the analogue maintenance business of its subsidiary, Cirrus Communication Systems Limited, to a third party for a purchase consideration of £452k in cash payable in installments.

On 2 August 2018, the entire principal and accrued interest on the 15% Senior Loan Notes due 2019 was repaid in full and £1.2 million of accrued interest on the Group's 9% Junior Loan notes due 2020 was repaid. On the same day the term of the Group's credit facility with RBS was extended to 30 September 2020 and the term of the 9% Junior Loan Notes was extended to 2 March 2021.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

31 Related parties

Group

Electra Private Equity Partners 2006 Scottish LP and Epiris Club 2007 LP (formerly Electra Partners Club 2007 LP), both limited partnerships registered in England and Wales, are regarded as related parties due to their shareholding in the Company, their provision of shareholder loans to the Group, and their representation on the board of Directors, which gives them significant influence over the Company and Group.

Chamonix Private Equity LLP, a limited liability partnership registered in England and Wales, is regarded as a related party due to its shareholding in the Company and its representation on the board of Directors, which gives it significant influence over the Company and Group.

The key management personnel of the Group are considered to be the Directors of the Company and certain senior management employees of the Group. A number of the key management personnel have also provided funding to the Group via shareholder loans, and some are shareholders of the Company.

Transactions with related parties

During the year advisory services of £278,143 (2016: £271,278) were paid to Epiris Club 2007 LP and Electra Private Equity Partners 2006 Scottish LP, and £444,342 (2016: £434,006) were paid to Chamonix Private Equity LLP.

Both Electra Private Equity Partners 2006 Scottish LP and Epiris Club 2007 LP are holders of Senior and Junior Loan Notes, which are included in Borrowings and incur interest expense. Chamonix Private Equity LLP and key management personnel are holders of Junior Loan Notes, which are included in Borrowings and incur interest expense. Details of these transactions and balances are shown below:

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

31 Related parties (Continued)

| | 2017 £ | 2016 £ |
|--|------------|------------|
| Electra Private Equity Partners 2006 Scottish LP: | | |
| Shareholder loan notes | 7,922,132 | 7,910,892 |
| Interest accrued on Shareholder loan notes | 15,237,953 | 12,781,578 |
| Interest charged in the year | 2,454,660 | 2,169,852 |
| Epiris Club 2007 LP: | | |
| Shareholder loan notes | 3,961,066 | 3,955,446 |
| Interest accrued on Shareholder loan notes | 7,618,851 | 6,390,674 |
| Interest charged in the year | 1,227,319 | 1,084,917 |
| Chamonix Private Equity LLP: | | |
| Shareholder loan notes | 2,002,303 | 1,999,163 |
| Interest accrued on Shareholder loan notes | 1,306,656 | 1,032,960 |
| Interest charged in the year | 273,217 | 250,359 |
| Key management personnel: | | |
| Shareholder loan notes | 180,999 | 200,999 |
| Interest accrued on Shareholder loan notes | 84,324 | 65,469 |
| Interest charged in the year | 21,907 | 37,477 |

In July 2016 key management personnel invested £57,886 in Junior Loan Notes and transferred £38,591 to Electra Private Equity Partners 2006 Scottish LP and £19,295 Epiris Club 2007 LP.

On 25 June 2018 Electra Private Equity Partners 2006 Scottish LP transferred its entire shareholding in Knight Square Holdings Limited to Electra Investments Limited. On the same day Electra Private Equity Partners 2006 Scottish LP transferred its entire holdings the Shareholder loan notes to Electra Private Equity PLC.

On 2 August 2018, the entire principal and accrued interest on the 15% Senior Loan Notes due 2019 was repaid in full and £1.2 million of accrued interest on the Group's 9% Junior Loan notes due 2020 was repaid. On the same day the term of the 9% Junior Loan Notes was extended to 5 March 2021.

Non-controlling interest

In December 2017, certain key management personnel invested £100,000 in the share capital of Appello Limited, a subsidiary of the Group. This acquisition represents a non-controlling interest in the equity of the Group and has been disclosed as such in the profit and loss account, statement of other comprehensive income, balance sheet and statement of changes in equity.

Remuneration of key management personnel

The remuneration of key management personnel, which includes those directors remunerated by the Group, is as follows:

| | 2017 £ | 2016 £ |
|----------------------|------------------|------------------|
| Aggregate emoluments | 1,197,064 | 1,045,912 |
| Other pension costs | 25,997 | 33,360 |
| | <u>1,223,061</u> | <u>1,079,272</u> |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

31 Related parties (Continued)

Company

The Company's only related party transactions in the year were with wholly owned subsidiaries and so have not been disclosed. All balances in the current and prior year were with wholly owned subsidiaries.

32 Controlling party

The directors do not consider that there is a single entity or person having control of the Company.

Knight Square Holdings Limited is the parent undertaking of both the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of Knight Square Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ or from the Company's registered office at Queensway House, 11 Queensway, New Milton, Hampshire, UK, BH25 5NR.

33 Result of the company for the financial year

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company made a profit of £nil (2016: £nil) for the financial year.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

34 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 are as follows:

| Name of undertaking and country of incorporation or residency | | Nature of business | % Held | |
|---|------------------------------|------------------------------|--------|----------|
| | | | Direct | Indirect |
| Knight Midco Limited | England & Wales No. 07927619 | Holding company | 100.00 | |
| Knight Square Limited | England & Wales No. 07925019 | Provision of shared services | | 100.00 |
| Appello Limited | England & Wales No. 06324769 | Provision of shared services | | 100.00 |
| Appello Telehealth Limited | England & Wales No. 04174104 | Monitoring services | | 100.00 |
| Call24Hour Limited | England & Wales No. 04252184 | Monitoring services | | 100.00 |
| Careline UK Monitoring Limited | England & Wales No. 03229746 | Monitoring services | | 100.00 |
| Cirrus Communication Systems Limited | England & Wales No. 01444995 | Maintenance and installation | | 100.00 |
| FirstPort Bespoke Property Services Limited | England & Wales No. 01623496 | Property management | | 100.00 |
| FirstPort HMF Limited | England & Wales No. 06776392 | Investment property | | 100.00 |
| FirstPort Insurance Services Limited | England & Wales No. 03479579 | Insurance services | | 100.00 |
| FirstPort Limited | England & Wales No. 04352396 | Provision of shared services | | 100.00 |
| FirstPort Operations PD Limited | England & Wales No. 06277828 | Investment property | | 100.00 |
| FirstPort Property Services Limited | England & Wales No. 02061041 | Property management | | 100.00 |
| FirstPort Property Services No.2 Limited | England & Wales No. 02231168 | Property management | | 100.00 |
| FirstPort Property Services No.4 Limited | England & Wales No. 07299764 | Property management | | 100.00 |
| FirstPort Property Services Scotland Limited | England & Wales No. 03829468 | Property management | | 100.00 |
| FirstPort Retirement Property Services Limited | England & Wales No. 01614866 | Property management | | 100.00 |
| R.C. (Holdings) Limited | England & Wales No. 02968054 | Holding company | | 100.00 |
| R.C. Housing Association Limited | England & Wales No. IP28150R | Property management | | 100.00 |
| Retirement Care Group Ltd | England & Wales No. 02195300 | Investment property | | 100.00 |
| Retirement Homesearch Limited | England & Wales No. 03829469 | Specialist estate agent | | 100.00 |
| Balfour Homes Management Limited | England & Wales No. 01986825 | Non-trading | | 100.00 |
| Brook Farm Court Management Limited | England & Wales No. 02368738 | Dormant | | 100.00 |
| Cavendish Management (Norwich) Limited | England & Wales No. 01831847 | Dormant | | 100.00 |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

34 Subsidiaries (Continued)

| | | | |
|---|------------------------------|-------------|--------|
| Consort Property Management Limited | England & Wales No. 03479620 | Dormant | 100.00 |
| Edgewood Management Services Limited | England & Wales No. 02948602 | Non-trading | 100.00 |
| Edgewood Retirement Developments Limited | England & Wales No. 02086525 | Non-trading | 100.00 |
| Ferndale Retirement Management Limited | England & Wales No. 01709679 | Dormant | 100.00 |
| FirstPort Investment Properties Limited | England & Wales No. 04352393 | Dormant | 100.00 |
| FirstPort Property Services No.3 Limited | England & Wales No. 04352415 | Dormant | 100.00 |
| FirstPort Retirement Limited | England & Wales No. 03479623 | Dormant | 100.00 |
| FirstPort Secretarial Limited | England & Wales No. 05806647 | Dormant | 100.00 |
| FirstPort Services Limited | England & Wales No. 09142979 | Dormant | 100.00 |
| King George Court Management Limited | England & Wales No. 03175135 | Non-trading | 100.00 |
| Maclaren Management Services Limited | England & Wales No. 02142118 | Dormant | 100.00 |
| Matterdale Gardens Management Limited | England & Wales No. 02405973 | Non-trading | 100.00 |
| Meridian Homes Limited | England & Wales No. 01972727 | Dormant | 100.00 |
| Meridian New Homes Limited | England & Wales No. 02682974 | Dormant | 100.00 |
| Meridian Property Group Limited | England & Wales No. 02306958 | Non-trading | 100.00 |
| Meridian Retirement Homes Limited | England & Wales No. 01885186 | Dormant | 100.00 |
| Meridian Retirement Housing Services Limited | England & Wales No. 01833177 | Dormant | 100.00 |
| Mint Property Management Limited | England & Wales No. 05643630 | Non-trading | 100.00 |
| OM Nominee Services Limited | England & Wales No. 06695871 | Dormant | 100.00 |
| OM Property Management Limited | England & Wales No. 09143096 | Dormant | 100.00 |
| OM Property Management No.2 Limited | England & Wales No. 09375984 | Dormant | 100.00 |
| Pegasus Court (Abergavenny) Management Limited | England & Wales No. 02285749 | Dormant | 100.00 |
| Pegasus Court (Barnwood) Management Limited | England & Wales No. 02311505 | Dormant | 100.00 |
| Pegasus Court (Bourton-on-the-Water) Management Limited | England & Wales No. 02285752 | Dormant | 100.00 |
| Pegasus Court (Broadway) Management Limited | England & Wales No. 02392014 | Dormant | 100.00 |
| Pegasus Court (Fleet) Management Limited | England & Wales No. 02318677 | Dormant | 100.00 |

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

34 Subsidiaries (Continued)

| | | | |
|---|---------------------------------|-------------|--------|
| Pegasus Court (Paignton) Management Limited | England & Wales No. 02392342 | Dormant | 100.00 |
| Pegasus Court Cheltenham (Management) Limited | England & Wales No. 01867554 | Dormant | 100.00 |
| Pegasus Court Hartley Wintney (Management) Limited | England & Wales No. 02129138 | Dormant | 100.00 |
| Pegasus Court Management Limited | England & Wales No. 02516929 | Dormant | 100.00 |
| Pegasus Thamesnorth Management Limited | England & Wales No. 02636137 | Dormant | 100.00 |
| Pembertons Maintenance Trustees (Aldford House) Limited | England & Wales No. 05111218 | Dormant | 100.00 |
| Pembertons Residential Limited | England & Wales No. 09375969 | Dormant | 100.00 |
| Peverel Building Technologies Limited | England & Wales No. 09221891 | Dormant | 100.00 |
| Peverel Management Services Limited | England & Wales No. 09142759 | Dormant | 100.00 |
| Peverel Property Management Limited | England & Wales No. 09146176 | Dormant | 100.00 |
| Peverel Scotland Limited | England & Wales No. 09145223 | Dormant | 100.00 |
| Peverel Services Limited | England & Wales No. 09146279 | Dormant | 100.00 |
| Renaissance Management Services Limited | England & Wales No. 03404510 | Non-trading | 100.00 |
| Retirement Care (Southern) Limited | England & Wales No. 02486317 | Non-trading | 100.00 |
| Retirement Care Limited | England & Wales No. 01706784 | Dormant | 100.00 |
| Retirement Marketing Services Limited | England & Wales No. 02196442 | Dormant | 100.00 |
| Sonata Insurance Services Limited | England & Wales No. 06704179 | Dormant | 100.00 |
| Stonedale (2012) Limited | England & Wales No. 06544398 | Dormant | 100.00 |

The registered address for all subsidiaries is Queensway House, 11 Queensway, New Milton, Hampshire, UK, BH25 5NR.

All dormant companies are exempt from preparing individual accounts in accordance with s394A of Companies Act 2006.

KNIGHT SQUARE HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

35 Associates

Details of associates at 31 December 2017 are as follows:

| Name of undertaking and country of incorporation or residency | Nature of business | % Held | |
|---|--|--------|----------|
| | | Direct | Indirect |
| Digital Wellbeing Limited | England & Wales No. 09043016 Diet and fitness products | | 25.00 |

The registered address for Digital Wellbeing Limited is The Courtyard, Shoreham Road, Upper Beeding, Steyning, West Sussex, BN44 3TN.

| 36 Cash generated from operations | 2017 £ | 2016 £ |
|--|------------------|------------------|
| Operating profit for the year | 4,479,544 | 5,558,158 |
| Adjustments for: | | |
| Loss on disposal of investment property | 364,356 | 424,084 |
| Amortisation and impairment of intangible assets | 2,182,607 | 2,073,942 |
| Depreciation and impairment of tangible assets | 3,190,634 | 2,695,032 |
| Revaluation of investment properties | (615,251) | (2,850,945) |
| Decrease in provisions | (1,864,013) | (405,662) |
| Movements in working capital: | | |
| Decrease in inventories | 264,225 | 98,701 |
| (Increase) / decrease in debtors | 82,816 | 1,397,775 |
| Decrease in creditors | (2,484,378) | (12,895) |
| Cash generated from operations | 5,600,540 | 8,978,190 |