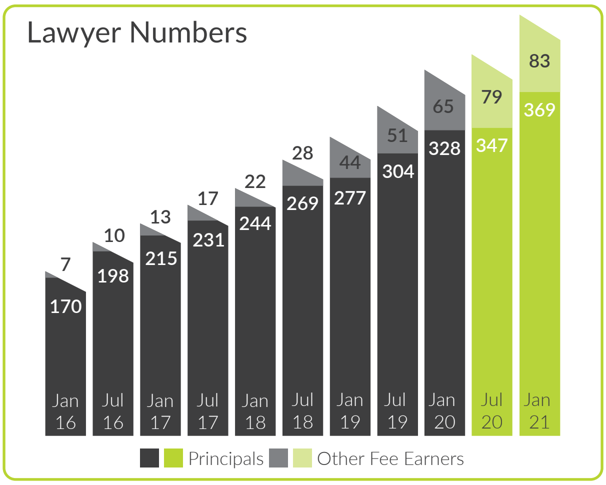
ANNUAL REPORT AND ACCOUNTS

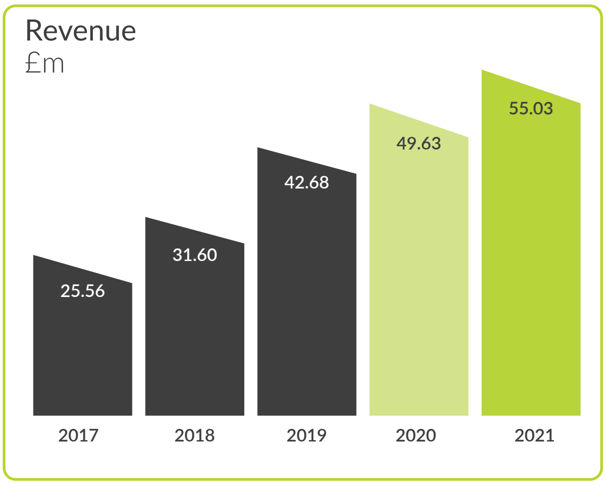
for the year ended 31 January 2021

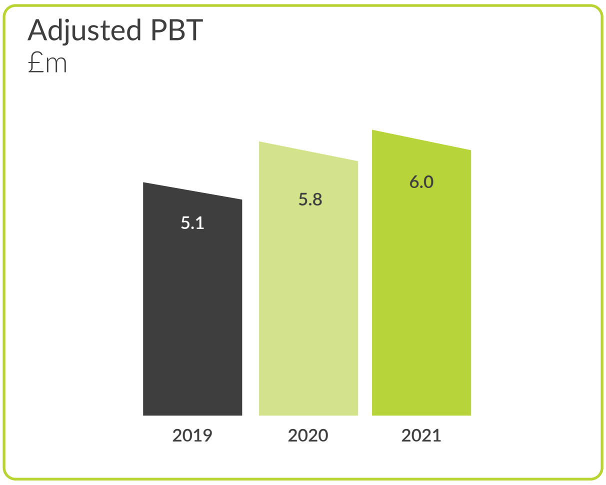
KEYSTONE LAW

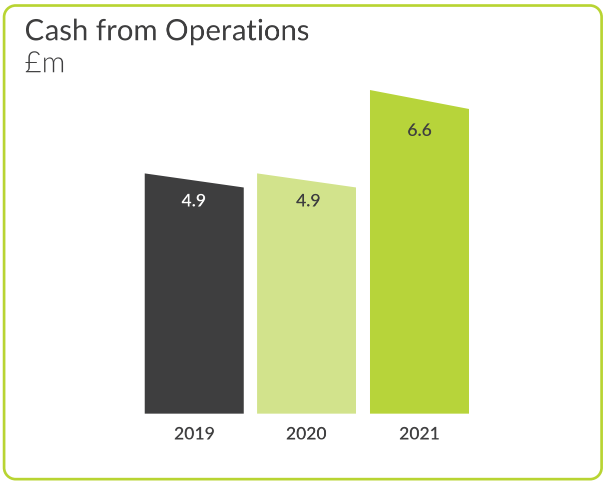
KEYSTONE LAW

Fast growing, profitable and cash generative, Keystone Law is disrupting the traditional legal market.









Attractive business model

Our model offers lawyers freedom, flexibility and autonomy while delivering long-term and consistent growth.

Scalable

We grow organically by attracting high calibre lawyers from a large addressable market which is ripe for disruption.

Supportive culture

Our supportive and collaborative culture is one of the reasons why lawyers are attracted to us and remain with us.

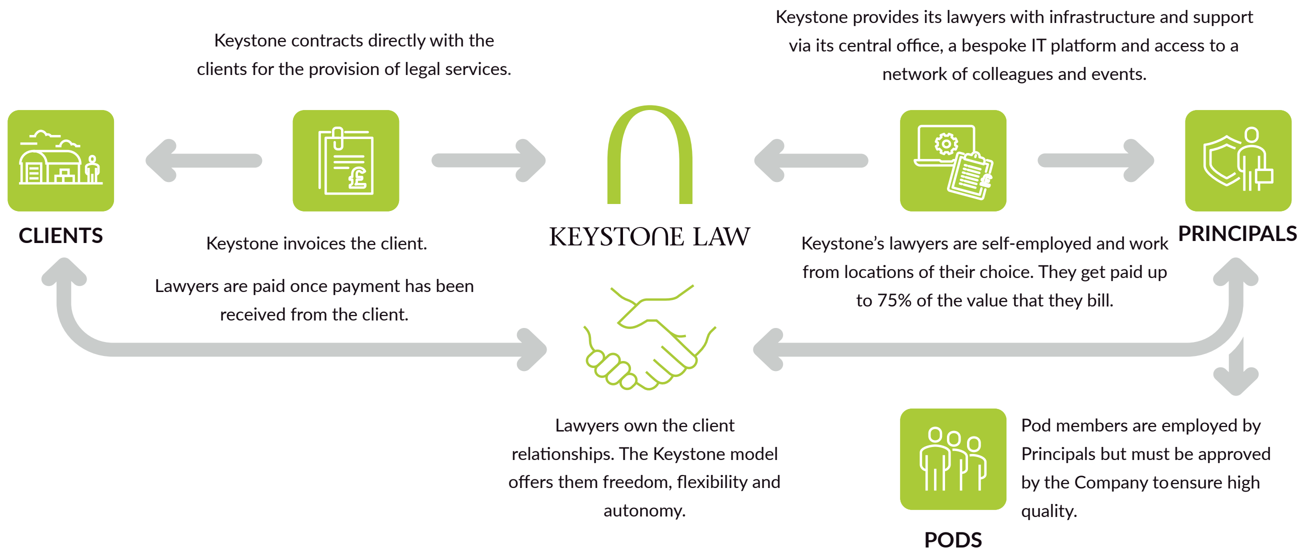
BUSINESS REVIEW

KEYSTONE

Keystone is an award-winning innovative law firm, providing a conventional legal service to SMEs and high net worth individuals through a scalable and proven business model operating in a £9bn addressable market.

OUR MODEL

Keystone has a unique business model which offers lawyers freedom, flexibility and autonomy. We recruit high quality, experienced lawyers from mid-market law firms. Our lawyers are self-employed and they determine how, when and where they work being fully responsive to the demands of their clients. They earn up to 75% of the fees they bill, 60% for doing the work and 15% for introducing the client. In return, Keystone offers a full suite of resources, providing them with infrastructure and support via the central office, a bespoke user-friendly proprietary IT platform, and access to an extensive network of highly experienced colleagues, as well as a programme of events and initiatives focused on helping them to maximise their potential.



The remuneration model is simple, transparent and the same for everyone. Lawyers are paid once the clients have paid for the services. This structure has two core benefits: typically, lawyers earn more money for the same work than they would in a conventional firm, and Keystone is resilient and highly cash generative.

OUR CULTURE

Keystone has a supportive and collaborative culture, which is one of the reasons why lawyers are attracted to the business and remain with us. We treat our lawyers like clients, and the absence of a hierarchical structure is beneficial in many ways - our lawyers are freed from office politics and unwanted managerial responsibilities, and are able to focus exclusively on what they enjoy and do best: being a lawyer. For many lawyers, this is life-changing. We have always believed that Keystone is one of, if not the, happiest law firm in the country. This belief was validated by Roll on Friday naming Keystone Firm of the Year 2020 as the happiest law firm.

Although our lawyers work independently, they are far from isolated. There is a strong network and sense of collaboration within Keystone which we consciously and consistently encourage and promote. We commit substantial time, effort and resource to bring our lawyers together so that they meet, know, and trust each other. We recognise that internal networks offer both the professional and personal support our lawyers need to flourish. An important part of our lawyers' success is access to the extensive knowledge and experience of their colleagues. More than 30% of work at Keystone is a result of cross-referrals, demonstrating the multi-faceted requirements of clients and the inter-connectivity and collaboration that is built into the DNA of Keystone.

SCALABLE

Keystone grows organically by recruiting high calibre, senior lawyers from across the UK legal mid-market who bring with them their client relationships and contacts. Our addressable market is large (accounting for c.£9bn in annual fee income) and is ripe for disruption as increasing numbers of lawyers seek to gain greater control over how they develop their practice, achieve an improved work-life balance, and earn more for the work they do (see page 04).

Keystone's model means that there are neither physical nor working capital constraints on the rate of growth or the size to which the business can grow, with most areas of law within the mid-market being addressable by our model.

Furthermore, the way in which the Principal lawyers contract with Keystone means that they in turn can recruit other lawyers into their "Pods". To ensure the calibre is maintained all recruits are approved by Keystone. Lawyers who so wish can use this structure to build a larger practice than would otherwise be possible, and thereby better leverage the value of their client relationships. For those who either do not wish to take this approach, or for whom the need for support is less substantial, there is always the ability to cross refer work to other Keystone principals. Alternatively, junior support can be delivered by one of the junior lawyers employed by the central office to support all our senior lawyers.

MARKET REVIEW

THE COMPOSITION OF THE UK LEGAL SERVICES MARKET

The UK Legal Services Market

The UK legal market is the second largest in terms of fee income in the world, with annual fee revenue of £36.8 billion in 2019 (up 4.6% year on year).

The UK is the largest legal market in Europe, second only to the US worldwide and is globally recognised as the most international due to the widespread use of English law as the framework for international commercial contracts and dispute resolution.

The "high street" market: this category covers the rest of the market.

The "mid-market" (the largest 200 law firms in the country (including Keystone) excluding the global elite): these firms account for over £9 billion annual fee income and employ more than 50,000 fee earners (Source: The Lawyer Top 200, 2020). This is the segment of the market which Keystone operates within.

The "global elite" (the Magic Circle and Silver Circle firms and others that together make up the 15 largest UK firms by annual revenue): these firms focus on delivering complex legal services to the largest global businesses, generating in aggregate £18 billion annual fee income and employing over 42,500 fee earners (Source: The Lawyer Top 200, 2020).

Increasing complexity

The UK market operates under three different regulatory environments, covering England and Wales (89.7% of the UK market by value), Scotland (8.9%) and Northern Ireland (1.4%). The Legal Services Act 2007 introduced pivotal reforms liberalising the market in England and Wales which, through the creation of the Alternative Business Structure (ABS), allowed non-lawyers to own and act in management capacities within law firms. These reforms have not been adopted in Northern Ireland, nor fully adopted in Scotland, where legal practice ownership remains restricted to members of those countries' regulatory bodies.

The UK market is diverse, comprising approximately 9,300 law firms in England & Wales in July 2019 (source: Law Society October 2020) and around 95,000 solicitors acting in private practice. The Directors believe that the overall market can be broadly divided into the three segments shown above and that the mid-market is the segment in which Keystone operates.

THE MID-MARKET LAW FIRM MARKET

- Changes to legislative framework – The Legal Services Act 2007 allowed for changes to the delivery of legal services, resulting in both new entrants to the market and the creation of new business models which challenge the long standing models of the traditional law firms. Prior to the Legal Services Act 2007, equity partnership was the only basis on which a lawyer could access the highest level of remuneration within a law firm.
- Increasing commoditisation of services – The broader development and use of technology to deliver everyday services across the UK economy has meant that the services offered are more widely available and opportunities for differentiation more limited. This has resulted in increasing client pressure on fees and produced a marked shift in legal services pricing mechanisms expected by clients.
- Macroeconomic climate – Even prior to the last twelve months, the UK economy as a whole has had something of a challenging time. Within the legal market this has manifested itself in increased pressure from clients on fees; at the same time businesses have continued to suffer from inflationary pressure on costs, especially property costs which represent a substantial part of the cost base of most traditional law firms. This has resulted in a long term squeeze on profits for law firms operating in the "mid-market". The disruption caused by COVID-19 will only have served to highlight these difficulties.

IMPACT ON TRADITIONAL LAW FIRMS

- Increased billing targets – Within the traditional firms, the most common response has been to demand greater effort from those in senior associate and junior partner roles to deliver more revenue per head and drive business development whilst still retaining a high level of managerial responsibility.
- Reduction in appeal of equity partnership – Much of the historical appeal of equity partnership has reduced, with many junior partners no longer seeing the merits traditionally associated with that form of ownership. The cost of buying into partnerships is high and reduced profits in conventional mid-market law firms have meant that the return on equity invested is no longer as attractive as it was. Furthermore, with several high profile law firm insolvencies in recent years and the associated equity losses and personal liabilities for the equity partners involved, partnership of a mid-market law firm is no longer necessarily regarded as a secure investment.

OPPORTUNITY FOR KEYSTONE LAW

These long term structural dynamics have resulted in a significant number of experienced but dissatisfied lawyers across the UK mid-market seeking alternative ways to practise law. Furthermore, the enforcement of home working during the COVID-19 pandemic has undoubtedly fundamentally changed people's attitude towards remote working and, whilst it is still too soon to see the impact of this, it is highly likely that this will further enlarge the pool of lawyers wishing to take advantage of the opportunities offered by the Keystone model.

The Directors believe that, as a result of these trends, the UK legal services mid-market offers significant opportunity for an alternative model law firm such as Keystone.

COMPETITIVE LANDSCAPE

Keystone was one of the first to establish this model and, as such, has early mover advantage over other businesses which have since emerged and sought to replicate the Company's growth and performance through the operation of similar business models.

The Directors are currently aware of over 30 other such firms (none of which were included in The Lawyer UK Top 100 2020 rankings), with over 1,500 consultant lawyers in aggregate.

Whilst Keystone is widely considered the market leader amongst these firms (as evidenced by the fact that it is the only one to be placed in The UK Top 100), the Directors believe that the Group's opportunity exists across the entire mid-market, as Keystone's lawyers typically join from the conventional firms operating in this segment of the market.

CHAIRMAN'S STATEMENT

I am pleased to introduce Keystone Law's results for the year ended 31 January 2021.

In what has been a very challenging year for all, our technology and our culture have ensured that we have remained 100% operationally effective, continuing to support our clients throughout the year. COVID-19 and the resultant government restrictions affected client demand, especially during the first half of the year. In this context, the Group has had a good year, with revenue increasing by 10.9% to £55.0m (2020: £49.6m) and adjusted PBT* increasing by 3.6% to £6.0m, representing a 10.8% margin (2020: £5.8m, 11.6% margin) (PBT increase of 3.4% to £5.4m (9.8% margin) from £5.2m (10.5% margin).

Cash generation has been particularly strong, with cash generated from operations of £6.6m (2020: £4.9m) representing an operating cash conversion of 100% (2020: 82%).

*Adjusted PBT for 2021 is calculated by adding share based payment costs and amortisation to PBT (2020: calculated by adding share based payment costs, amortisation and one off costs associated with the property changes back to PBT). Details of these calculations are shown in the Financial Review on page 10.

DIVIDEND

As we announced in our Interim Statement, the Board believed that it was appropriate to reinstate payments of dividends and given the strong cash generation two interim dividends of 3.3p each were declared, the first being an amount equivalent to approximately half of that which would have been paid in respect of the year ended 31 January 2020 had the pandemic not happened and the second being in line with the Group's established dividend policy. In light of the strong second half performance and taking into account the strength of the balance sheet, the Board is proposing to pay a final dividend for the year ended 31 January 2021 of 10.6p per share (2020: £Nil). This dividend is comprised of two amounts, the first being an amount of 3.5p per share which is the remaining value which would have been paid in respect of 31 January 2020 had the pandemic not occurred and the balance of 7.1p per share in accordance with the established dividend policy. This brings the total dividend for the year to 17.2p per share (2020: 3.2p per share); 6.8p per share which would have been paid in respect of the year ended 31 January 2020 were it not for the pandemic and 10.4p per share in line with the Group's dividend policy.

BOARD AND GOVERNANCE

I am happy to report that the Board has continued to operate within the structures and governance requirements of the Quoted Companies Alliance ("QCA") code as set out in the corporate governance section of this report.

We were pleased to welcome Isabel Napper to the Board as Non-executive Director during the year. Now that Peter Whiting is stepping down, as previously announced, she will Chair the Remuneration Committee. Also effective today, Simon Philips will take over as Chair of the Audit Committee. We would like to thank Peter for his contribution to the Board since our IPO in 2017.

OUR PEOPLE AND TECHNOLOGY

Our people and our technology are two of the pillars on which Keystone is built and the strength and resilience of these has been clearly demonstrated this year. Throughout the pandemic ensuring the health and wellbeing of our people has been central to our approach to dealing with the situation. In early March 2020, ahead of the government's first lockdown, we moved all central office staff to home working. The technology we use to provide the lawyers the flexibility to work whenever and from wherever they want ensured that this was a simple step and since then we have continued to operate in this manner. As such, our technology has ensured that we have remained 100% operationally efficient throughout the year whilst our corporate culture was already fully adapted to supporting colleagues working in a remote environment.

OUTLOOK

I am pleased to say that the current year has started well. Whilst there remains some uncertainty as to how the economy will respond as Government restrictions relax, as a Board, we are confident in the Group's ability to continue to deliver on its organic growth strategy, taking advantage of the sizeable market opportunity which exists to continue to deliver strong results.

Robin Williams
Non-executive Chairman
28 April 2021

CHIEF EXECUTIVE'S REVIEW

Operational Review

INTRODUCTION AND HIGHLIGHTS

I am very pleased to be able to report that, in spite of the challenges faced by the COVID-19 pandemic, Keystone has had another successful and award-winning year.

The business has continued to grow, with revenue up 10.9% to £55m (2020: £49.6m) and adjusted PBT increasing by 3.6% to £6.0m (2020: £5.8m) (PBT increase of 3.4% to £5.4m). The cash generative nature of the model and thus its resilience has also been strongly demonstrated this year, with operating cash generated of £6.6m. This has given us the confidence not only to reinstate dividends in line with our stated policy but also to "catch up" the amount which would have been declared for the year ended 31 January 2020 had it not been for the outbreak of the pandemic.

Being 100% operational also meant that our recruitment activities continued unabated throughout the year and as such the number of Principals* increased from 328 to 369 and we saw the number of Pod members increase from 54 to 74, as both new and existing lawyers chose to expand their practice in this way.

In November we won what is arguably the most prestigious award in the UK Legal Industry; The Lawyer Awards: Law Firm of the Year. It is the first time that this award has been granted to a "new law" firm and reasserts our belief that Keystone is now very much recognised by the "establishment". This award recognises the best in class when it comes to private practice legal services over the past twelve months. Keystone was described by the award givers as, the firm which had "rethought the model", which was "light years ahead of everyone on virtual working" and was "big on work life balance".

We also won Firm of the Year 2021 in the Roll on Friday awards. This award is given to the "happiest firm" in the UK, based on a satisfaction survey run by Rolllonfriday.com of lawyers and support staff in law firms across the UK. Keystone won by some margin, with a 94% satisfaction rating across such categories as pay, career development, work / life balance and culture.

We are tremendously proud of these two awards as they go to the very heart of what Keystone is; a business which enables lawyers to deliver high quality legal services to clients whilst providing a culture which delivers support, well-being and happiness to our people; both elements of which we believe are fundamental to the success of Keystone.

OUR RESPONSE TO COVID-19

Our response to the pandemic has focused on two things, keeping our people safe and maintaining 100% operational efficiency. The health, well-being and happiness of our people is, and always has been, at the heart of the Keystone culture and this drove our decision to move our central office team to homeworking ahead of the first government lockdown. Having the technology stack already designed to support remote working meant that we were able to implement this decision swiftly without impacting on the quality of support that our lawyers receive.

* Principal lawyers are the senior lawyers who own the service company ("Pod") which contracts with Keystone. The relationship between Keystone and its lawyers is governed by two agreements: a service agreement (which governs the commercial terms and is between the Pod and Keystone) and a compliance agreement (which governs the behaviour of lawyers and is between each lawyer and Keystone). Pods can employ more than one fee earner. A junior lawyer who is employed by a Pod is, to all intents and purposes, a Keystone lawyer and presented to the outside world in much the same way as a conventional law firm would present a conventionally employed junior lawyer. Junior lawyers are properly interviewed and vetted by the recruitment team in central office to ensure that they are of the requisite quality and calibre. As is the case for the Principal lawyers, these juniors sign a compliance agreement with Keystone and are required to comply with all rules and regulations governing the professional conduct of Keystone's lawyers.

CHIEF EXECUTIVE'S REVIEW

Operational Review

During the short periods through the pandemic, when the government guidance encouraged a reopening of elements of society, we enabled lawyers to use our client meeting rooms when this was necessary. Ensuring that this was done in a COVID secure manner was a key priority and we therefore, encouraged the lawyers to only use the facilities where it was unavoidable, reduced meeting room capacity significantly and provided all the additional cleaning and other sanitary facilities necessary to protect anyone who was on site.

Maintaining Keystone's culture, a culture built on social interaction and cohesion, has presented a new set of challenges this year. In normal times, we dedicate substantial time and energy to ensuring that our people are well connected to one another and to the central team. This is usually achieved thanks to the number of physical events which we run, be it Continuing Professional Development events, sector / lawyer lunches, sports or cultural events. All of these bring our lawyers together in a social environment which enables them to network both personally and professionally. It is this aspect of the Keystone experience which has been most challenged by the government response to COVID-19. In the absence of physical events, we have had to take a more creative approach by replicating traditional networking events using online alternatives. Accordingly, we have continued to run an extensive number of events online which have evolved and varied over the period in order to keep them fresh and attractive to our people and have even launched our very own online pub; "The Keystone Arms" which hosted around 350 Keystone lawyers at the opening night. Treating our lawyers as valued personnel rather than commodities is one of the pillars upon which our culture is built and is essential to Keystone's success. A myriad of thoughtful initiatives such as sending champagne for every lawyer birthday or creating special Keystone colouring-in books to help reduce the pain of home schooling, have genuinely helped Keystone's personnel remain upbeat and effective throughout this challenging year.

From a financial perspective, we decided that the strength of our balance sheet and the resilient nature of our business model, made it inappropriate for Keystone to take advantage of the government schemes that were put in place to support struggling businesses. As such, we did not furlough any employees or defer any tax payments.

SCALABLE MODEL DRIVING ORGANIC GROWTH

Our clear, simple strategy for growth remains unchanged; organic growth through the recruitment of high calibre lawyers in the UK legal services market.

In furtherance of this strategy, we actively encourage and support Principals to grow their own Pods by recruiting juniors to work with them. In this way, Principal lawyers are able to build larger practices, thus increasing the average revenue per Principal, and by doing so, further leverage the value of their client relationships. To the extent that Principals need junior support but do not have a permanent need, or do not wish to build their own Pod, we also employ a number of junior lawyers within the central office team whose role it is to provide the necessary ad hoc support to the whole lawyer base.

Our model offers an attractive proposition for experienced lawyers as it gives them control to develop their practice on their own terms, concentrating exclusively on client development and the delivery of legal work. They enjoy the ability to work when and where they want and they appreciate the user-friendly bespoke technology with access to over 365 experienced colleagues to service their clients. Meanwhile, an efficient central office team provides them with the full range of logistical support they need. All this comes together with the ability to earn more money for the work they do whilst enjoying an improved work / life balance and a culture which is open, friendly and collegiate whilst remaining highly professional.

In the twelve months ended 31 January 2021, the size and nature of the market remained essentially unchanged (see pages 04 to 05). The government restrictions on movement meant that this year all UK lawyers have had to work from home for long periods of time and whilst many will have struggled with their firm's technology there has been a clear structural shift in the attitude towards remote working. This change has undoubtedly served to further erode any erroneous perceptions, which some lawyers working in traditional firms may still have held, regarding the ability of lawyers to work in this way and as such will have further extended the reach of the Keystone model. Winning "Law Firm of the Year" at the Lawyer Awards clearly demonstrates this change and confirms that Keystone is now firmly accepted by the mainstream legal establishment.

2021 has been another strong year for recruitment with the number of qualified new applicants increasing 6% to 253 and the number of offers accepted by candidates increasing by 25% to 70. The shape of the year has been unusual insofar as the "ordinary" triggers which drive recruitment peaks, notably the post holiday return to work, have been largely absent and it has been other events driving candidates desire for change. This was very apparent during the first lockdown which created a significant level of uncertainty across the legal industry and coincided with an uptick in the number of qualified new applicants, especially from the recruitment agencies. The second half saw further disruption as the restrictions were first relaxed through the summer period before once again escalating, albeit in something of a patchwork manner, during the rest of the year. The uncertainty created by these changes impacted on both the overall number, but also the timing, of qualified new applicants which ebbed and flowed in response to the changing picture. The start of the 2022 financial year has seen a fair but variable start with events continuing to evolve as we move from full lockdown to the start of the relaxation of restrictions in line with the government's roadmap.

In spite of the negative effect that COVID-19 had on client demand, most notably during the first half of the year, our lawyers have continued to grow their practices by recruiting juniors and colleagues into their Pods and as of 31 January 2021 we had 74 (2020: 56) Pod members operating within 44 Pods (2020: 31). This growth has been driven by a combination of new and existing Principals and further endorses the strength and flexibility of the model.

CONTINUING INVESTMENT IN IT

The investment made over many years in our IT infrastructure meant that we started the year in a strong position and as such COVID-19 had only a limited effect on the focus of the IT team this year. As always we continued to develop and enhance our core systems to ensure that they remain "best in class", always seeking to provide the best user experience and to drive ever greater operational efficiencies. Over and above this, IT security continues to be a key focus for the team and having rolled out a number of security enhancements to the estate last year, we continued to enhance the security environment as well as stepping up the awareness programme on cybersecurity.

The one area where COVID-19 did affect the IT team was in the take up and usage of video conferencing platforms as a primary tool for client meetings, as well as internal interaction with colleagues. We had all the necessary tools in place prior to the pandemic although usage levels were low with most people favouring more conventional means of meeting. Once again, having the tools available ahead of the outbreak meant that we were well placed to ensure a seamless transition from physical meetings to online meetings and the IT team worked extremely well to educate Keystone personnel on the availability and functionality of Microsoft Teams.

ONGOING INVESTMENT IN THE CENTRAL OFFICE TEAM

Once again this year, the Central Office team has demonstrated the "positive and can do" attitude of which I have become so proud over the years. It is worth noting that the Central Office team have previously only worked from our offices in Chancery Lane but with the outbreak of the pandemic they immediately switched to remote working. Their positive attitude to this seismic shift in the working environment ensured that we could continue to support our lawyers without interruption and deliver the "best in class" service to which they have become accustomed. This year has demonstrated the flexibility and adaptability of all aspects of the Keystone model and as ever the Central office team has played a key part in delivering this. I would like to take this opportunity to thank all of the Central office team for their hard work and enthusiasm.

LOOKING AHEAD

The current year has started well. The activity of the existing lawyers is strong and both the number and quality of qualified new applicants provide confidence in the year ahead. With the government roadmap in place and progress being made towards the relaxation and hopefully, end to lockdown restrictions, it is to be hoped that the general economic outlook will improve. Having performed well in spite of the restrictions last year, the Group is well positioned to take advantage of the improving position this year and deliver another strong performance.

James Knight

James Knight
Chief Executive
28 April 2021

FINANCIAL REVIEW AND STRATEGIC REPORT

KEY PERFORMANCE INDICATORS (KPIs)

The following KPIs are used by the management to monitor the financial performance of the Group:

- Revenue growth: 10.9% increase (2020: 16.3%)
- Adjusted PBT growth: 3.6% increase (2020: 12.0%)
- Adjusted PBT margin: 10.8% (2020: 11.6%)
- PBT growth: 3.4% increase (2020: 10.1%)
- PBT margin: 9.8% (2020: 10.5%)
- Operating cash conversion %: 100% (2020: 81%)
- Trade debtor days: 38 (2020: 36)
- Net Assets: £16.6m (2020: £14.1m)

The calculation of adjusted PBT is shown below.

INCOME STATEMENT

I am pleased to report revenue for the year of £55.0m, an increase of 10.9% on the prior year. As previously reported, whilst the pandemic caused significant disruption to client demand in the first half of the year, we experienced a return to pre Covid-19 levels during the second half. This is clearly demonstrated by the relative growth rates experienced in each period: year on year growth in the first half was 6.5% whereas the second half revenue was up 14.7%. Revenue growth has been driven by the lawyers recruited last year contributing a full year of productivity as well as contributions from the lawyers who have been recruited during this year, with principal lawyer numbers increasing from 328 to 369.

GROSS PROFIT

The gross profit margin of the business has fallen this year to 25.9% (2020: 26.7%). The key reason for this reduction has been driven by two factors, both of which affect the level of profitability generated by our employed junior lawyers. The first of these causes has been the pandemic and the resultant impact on client demand, especially in the first half of the year. The second is, rather perversely, a reflection of the successful evolution of the Pod concept. The Pod concept has developed quite substantially over the last couple of years to the extent that it is now a generally accepted means by which Keystone lawyers develop their practice. As such, it does mean that certain circumstances which historically would have resulted in exceedingly high utilisation of the employed juniors are now less likely to occur. One such example scenario is where a Principal lawyer is involved in a large case which requires full time junior support over a prolonged period of time; historically such a situation would have resulted in additional gross margin through the employed lawyers, whereas with the evolution of the Pod concept it is far more common that a Principal in this position would recruit a junior into their Pod such that we would benefit from the revenue at the standard gross margin.

ADMINISTRATIVE EXPENSES

Administrative expenses have increased by 6.7% to £7.7m (2020: £7.2m). The largest single component of this is staff costs which increased by 15.2% to £3.3m (2020: £2.9m), with support staff increasing from an average of 44 in 2020 to 47 in 2021. At the start of the pandemic, the Board decided that given the financial strength and resilience of the Group, it would be inappropriate to take advantage of government schemes aimed at supporting those in need and as such we did not furlough any staff during the period. That said, whilst the average number of support staff increased year on year, support staff headcount remained flat across the year. Other administrative costs increased by 1.2% to £4.42m (2020: £4.36m).

OTHER COSTS

During 2020, the Group entered into new lease arrangements in respect of our principal office at 48 Chancery Lane and 2021 was the first full year that these arrangements came into effect. As such, the charge for amortisation of right of use assets increased by 11% and depreciation increased by 51% to £0.1m as the charge in respect of the investment made in leasehold improvements last year also took full effect. The charge in respect of share based payments increased from £0.13m to £0.2m as a new grant was made and the cost of all historic grants continued to be charged to the income statement, whilst finance income was negligible in the year as interest rates fell close to nil.

PBT, ADJUSTED PBT AND PBT MARGINS

Adjusted PBT is calculated as follows:

	2021 £	2020 £
Profit before tax	**5,405,135**	5,225,891
Amortisation	**350,884**	350,884
Share based payments	**208,671**	128,286
One off impact of property changes	–	51,547
Adjusted PBT	**5,964,690**	5,756,608
PBT Margin	**9.8%**	10.5%
Adjusted PBT Margin	**10.8%**	11.6%

The decline in both PBT and adjusted PBT margins this year (0.7% and 0.8% respectively) has been principally driven by the reduction in gross profit margin, which was caused by a lower level of utilisation of the centrally employed junior lawyers as explained above. With interest rates falling almost to nil, finance income fell by £0.1m contributing a further 0.3% decline in the margin. These movements were partly offset because administrative expenses, net of other operating income, fell as a percentage of revenue by 0.4% reflecting the continuing benefits of operational gearing in the business.

TAXATION

The effective tax rate of 19.9% is higher than the standard rate and lower than that of the prior year (20.3%). Due to the nature of our business and the investment we make in providing networking opportunities in social environments for our lawyers, the tax rate of the business is always likely to be slightly higher than the standard rate as these costs are disallowable for corporation tax purposes. Compared to the previous year, the level of disallowable expenses was lower as we were unable to hold a number of lawyer events due to the restrictions imposed on social interaction.

EARNINGS PER SHARE

Basic earnings per share increased from 13.3p to 13.8p, with the dilution effect from shares awarded under LTIP being negligible. Adjusted earnings per share (calculated by making the same adjustments to earnings as has been made in calculating adjusted PBT and divided by the average shares in circulation this year) has increased by 4% to 15.6p (2020: 15.0p).

STATEMENT OF FINANCIAL POSITION

CASH

The Group's business model is strongly cash generative because its most significant cost, the fees paid to lawyers, is only paid once Keystone has been paid for the work it has delivered. Operating cash conversion for the year was particularly strong this year at 100% (2020: 81%) generating cash from operations of £6.6m (2020: £4.9m). Last year's cash conversion had been somewhat depressed by an increase in the level of client disbursements which had been paid by the Group and not yet recovered from clients at the year end, this position unwound during this financial year with the level of disbursement funding falling this year. Furthermore, the growth in accrued income this year has been slower than in the prior year (net £0.1m) due to the disruption caused by the pandemic. Capital expenditure was £0.05m (2020: £0.4m) having returned to the normal run rate within the business having incurred the costs associated with fitting out the new floor of offices taken in Chancery Lane last year. Corporation tax payments were £1.0m (2020: £0.8m). Net interest received (ex the interest portion of lease payments) of £0.02m (2020: £0.14m) has fallen substantially as interest base rates have fallen to almost nil whilst the interest element of lease payments was £0.1m (2020: £0.08m). Lease repayments of £0.4m reflect the normal run rate of payments under our existing leases (2020: £0.2m benefited from rent free periods at the start of the new leases). As such, cash generated by the business in the year, being net cash flow pre dividend payments, was £5.0m (2020: £3.6m). The Group paid dividends of £2.1m (2020: £5.5m), which included two ordinary interim dividends of 3.3p per share each. This left closing cash of £7.4m (2020: £4.4m) and no debt.

NET ASSETS

The net assets of the Group have increased from £14.1m to £16.6m, with retained earnings of profits of £4.3m less the dividends of £2.1m. This leaves the business with a strong balance sheet.

FINANCIAL REVIEW AND STRATEGIC REPORT

SECTION 172 COMPANIES ACT STATEMENT

The statements below address the reporting requirements of the Board under Section 172 of the Companies Act and the Companies (Miscellaneous Reporting) Regulations 2018.

The Directors of the Company have a duty to promote the success of the Company. A director of the Company must act in the way they consider, in good faith, to promote the success of the Company for the benefit of its members, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's operations on the community and the environment;
- the desirability of the Company to maintain a reputation for high standards of business conduct; and
- the need to act fairly between members and the Company.

The Directors are committed to developing and maintaining a governance framework that is appropriate to the business and supports effective decision making coupled with robust oversight of risks and internal controls.

Keystone has a clearly stated long term organic growth strategy and as such all significant business decisions consider both the short and long term impact in the process. The key to delivering this strategy is to continue to recruit and retain high calibre lawyers. In order to be an attractive place for high calibre lawyers to work, it is essential that Keystone maintains its reputation for delivering work to the highest professional standards. Central to the success of the business is the development and maintenance of its open, welcoming and collegiate culture and we invest significant time and resources to ensure that these facets are maintained and developed for the benefit of all those involved with the Company.

Keystone's primary asset is its people, be it the central office staff, the lawyers, the clients or third party suppliers with whom we work (such as counsel, experts and other professionals). As a business, we dedicate substantial time, effort and resources in working to develop and maintain strong relationships from which all parties benefit. As a people business, the impact of business decisions on our principal stakeholders is always central to the decision making process.

The nature of the Group's business is fundamentally low impact to the environment, we have an extremely small office footprint and the use of technology across the business further reduces the environmental impact as our lawyers have no need to commute to work.

The Directors treat all members of the Company fairly and consistently, as required by both professional standards and in compliance with various pieces of legislation. We provide information to all shareholders and other third parties on an equal basis.

DIVIDEND

In light of the strength of the second half performance and taking into account the strength of the balance sheet, the Board is proposing to pay a final dividend for the year ended 31 January 2021 of 10.6p per share (2020: nil). This dividend is comprised of two elements, the first being an amount of 3.5p per share which is the remaining value which would have been paid in respect of 31 January 2020 had the pandemic not occurred and the balance of 7.1p per share in accordance with the established dividend policy. This brings the total dividend for the year to 17.2p per share (2020: 11.2p per share (3.2p Ordinary and 8.0p Special)); 6.8p per share which would have been paid in respect of the year ended 31 January 2020 were it not for the pandemic and 10.4p per share in line with the Group's dividend policy.

The proposed final dividend will be payable on 9 July 2021 to shareholders on the register at the close of business on 11 June 2021.

On behalf of the Board

Ashley Miller
Finance Director
28 April 2021

THE BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

JAMES KNIGHT CHIEF EXECUTIVE OFFICER

James founded Keystone in 2002 when he set out to create a new type of law firm. Prior to that he had a 10 year career as a commercial solicitor in London, Hong Kong and Dubai. James now focuses on business development, marketing, and other drivers of growth.

ASHLEY MILLER FINANCE DIRECTOR

Ashley joined Keystone in January 2015 following the PE investment by Root Capital in the business. He is a commercially orientated finance professional with over 20 years' experience. Having trained with Price Waterhouse, Ashley has spent his career establishing and managing international finance departments for SME businesses operating across the professional services sector.

NON-EXECUTIVE DIRECTORS

ROBIN WILLIAMS INDEPENDENT NON-EXECUTIVE CHAIRMAN

Robin joined the Board in October 2017 as Independent Non-executive Chairman. He is a chartered accountant with over 30 years' experience with listed companies initially as an adviser, then as a leading executive and latterly as Non-executive. He is also currently Chairman of FIH Group Plc.

PETER WHITING SENIOR INDEPENDENT DIRECTOR

Peter joined the Board in October 2017 as Senior Independent Director and Chair of the Audit Committee. He is an experienced NED who is currently Chairman of Kooth Plc as well as Senior Independent Director and Chair of the Remuneration Committee of both FDM Group (Holdings) plc and Aptitude Software Group plc as well as Non-executive Director of D4t4 Solutions. Earlier in his career he led the UK small and mid-cap research team at UBS and was Chief Operating Officer of UBS European Equity Research from 2007 to 2011.

As previously announced, with the successful IPO of Kooth Plc, Peter feels that now is the right time for him to step down as Non-executive Director of Keystone and this will take effect from today.

SIMON PHILIPS NON-EXECUTIVE DIRECTOR

Simon joined the Keystone Board following the investment by Root Capital (now known as ScaleUp Capital) in October 2014 and was Chairman until October 2017. Since then he has been a Non-executive Director and Chair of the Remuneration Committee. He is an experienced entrepreneur in the software and outsourcing sectors and the CEO of the private equity firm ScaleUp Capital.

From today Simon will step down as Chair of the Remuneration Committee and will act as Senior Independent Director and Chair of the Audit Committee.

ISABEL NAPPER NON-EXECUTIVE DIRECTOR

Isabel joined the Board in December 2020. She is currently Non-executive Director and Chair of the Remuneration Committee of SDI Group Plc and Tristel PLC. She brings a range of experience having acted as Non-executive Director for both private and public companies for over 15 years. Until 2015 she practiced as a lawyer specialising in intellectual property and commercial law.

Upon the resignation of Peter Whiting, Isabel will Chair the Remuneration Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

The Corporate Governance Report includes an overview of the Group's approach to risk management and internal controls. Set out below are the principal risks and uncertainties that the Group faces and the activities designed to mitigate these risks. The Board recognises that the nature and scope of risks can change and that there may be other risks to which the Group is exposed and therefore, the list is not intended to be exhaustive.

	Risk	Mitigation
GLOBAL PANDEMIC AND SUBSEQUENT ECONOMIC DOWNTURN	A virus that causes material sickness levels in the population requiring national steps which significantly impact mobility of people and the national economy, creating uncertainty and potentially impacts on the Group's business.	The IT platform on which the Group operates is designed to support remote working. Furthermore, we deliver our services across a broad range of legal services supporting clients across a large range of sectors such that we have no dependence on any one area of law, sector of the economy or client. Finally, the remuneration structure of our lawyers (fully variable and pay when paid) provides a substantial cushioning effect in the event of economic volatility.
LITIGATION, PROFESSIONAL LIABILITY AND UNINSURED RISKS	Due to the nature of a law firm and its role of providing legal advice, the Group remains susceptible to potential liability for negligence, breach of contract and other client claims. From time to time, in the ordinary course of business, Keystone receives claims of professional negligence which it notifies to its insurers. Any potential claim may be expensive to defend, divert the time and focus of management away from the Group's operations and may result in the Group having to pay substantial monetary amounts, any of which could impact on the reputation of the Group and result in a material adverse effect on Keystone's business and overall financial condition.	We have a robust compliance and risk management team which focuses on supporting lawyers to reduce the risk that such issues may arise and to the extent that they do arise we seek to mitigate any such risk by carrying professional indemnity insurance with a cap of £30 million.
REGULATORY RISK AND COMPLIANCE RISKS	The Group, like most businesses, is subject to a range of regulations. Failure to comply with these could have significant implications for the business ranging from reputational damage to criminal prosecution and sentencing.	The business has an experienced and robust compliance and risk management team which oversees the Group's policies and procedures ensuring that they meet the relevant regulatory requirements. The Group uses technology to support and drive compliant behaviour and to help the team to focus on areas of potential risk. Furthermore, the team calls upon external professional advice where needed to ensure that the business meets its compliance and regulatory obligations.
PERSONNEL	For any business, personnel is a particularly prominent asset heavily contributing to its strength and attractiveness. The Group is heavily reliant on its lawyers to attract new clients and also maintain relationships with existing clients. If the Group were to lose the services of key lawyers with high client retention rates, or cease to be able to attract new lawyers, this could significantly impair the strategy and success of the firm from both a reputational and financial standpoint.	The Group invests considerable time and effort in working to attract high quality new lawyers as well as focusing on ensuring that all lawyers feel a part of the Keystone "family". Furthermore, management continues to monitor the characteristics of the Keystone model to ensure that they remain commercially compelling and attractive to both existing and potential Keystone lawyers.

	Risk	Mitigation
CONTRACTUAL ARRANGEMENTS WITH LAWYERS	Keystone's lawyers are self-employed, contracting with the Group predominantly via personal service companies. The self-employed status of the Group's consultants is based not only on the contractual structure but also on the way in which the arrangements operate in practice. There is a risk that some of the consultant lawyers may be deemed to be workers or employees and, as such, would be entitled to additional benefits including, but not limited to, paid annual leave and sick pay. If this were to occur then in addition to the rights for workers, such lawyers would gain rights for unfair dismissal. If the consultant lawyers were deemed to be employees, then the tax treatment would be different and the Group would be liable for PAYE and national insurance contributions for such people deemed to be employees. Furthermore, if there is a change in employment law or tax law which means that the nature of the relationship which exists between the Group and its lawyers is not one of self-employment, then the rights and obligations referred to above could also be triggered.	The Group monitors the legislative landscape for any developments which could have a bearing upon this relationship. Where necessary the Group would seek external professional advice to support it in assessing the implications of any such developments.
COMPETITION	Keystone competes with other legal firms that offer commercial law services in which quality of advice, service, reputation and value operate as highly competitive factors to distinguish the Group. Despite this, there remains a risk that competitor firms or a newly established firm will acquire market share. Competition remains a core risk for the Group as any loss of market share could reduce revenue, reduce margins, reduce the ability to recruit new lawyers and reduce the retention rates of current personnel, any of which could materially adversely affect the Group's business operations and overall financial condition.	Keystone's growth strategy continues to be focused on attracting good quality lawyers with strong client relationships. By maintaining the calibre of lawyers attracted and retained, management believes that they will maintain and enhance their position in the market. Management also continues to review and monitor the characteristics of the Keystone model to ensure that they stay ahead of any current or future competitors.
INFORMATION SYSTEMS AND SYSTEM SECURITY BREACHES	IT forms an integral part of the business's operating model and as such any breakdown of the Group's information technology system could be significant. Also, as Keystone processes sensitive personal data it is possible that a security breach could result in some of this data becoming public. Were this to occur, then Keystone could face liability under data protection laws and could lose the goodwill of any clients affected by such a breach.	Hosting and support of all systems is outsourced to a large, reputable business who is dedicated to the provision of these services. They are contracted to keep all data safe, secure and backed up. They utilise a number of tools and appliances to maintain Keystone's data integrity and security.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The Directors acknowledge the importance of high standards of corporate governance. The Directors have decided to apply the Quoted Companies Alliance Code 2018 on Corporate Governance (the "QCA Code") which sets out a framework of 10 Principles to corporate governance. The Board ensures that the Group complies with the Code and sets out below how it complies with each of the 10 Principles.

KEYSTONE'S BUSINESS MODEL AND STRATEGY (PRINCIPLE 1)

KEYSTONE'S BUSINESS MODEL

As a full service networked law firm, Keystone delivers conventional legal services across a range of service areas and industry to a client base comprising predominantly SMEs and private individuals. It is how these services are delivered via Keystone's distinctive platform model, rather than the services themselves, which differentiates Keystone from other law firms. It is this platform model which is central to Keystone's growth and success.

Unlike conventional law firms, Keystone's high calibre and experienced lawyers are self-employed; predominantly contracting with Keystone through personal service companies. The lawyers have no fixed remuneration, instead benefiting from a transparent, consistent and 100% variable pay structure, with between 60-75%. of fees paid to the lawyer once Keystone has been paid for the work undertaken. They work from their own offices (mainly in the UK, although geographic location is not a limiting factor due to the way in which services are delivered) and are free to focus exclusively on client care and development and the delivery of legal services. They are fully supported by the Group's Central Office team which provides all of the services they require to deliver high quality legal services to their clients, including (but not limited to): compliance and insurance, junior lawyer support, marketing, finance and IT.

Fundamental to the operation of Keystone's model is the Group's technology solution which has been specifically developed to deliver services to a mobile/dispersed workforce such as we have. This uses both bespoke proprietary software as well as best in class industry specific solutions which enable its lawyers to work efficiently and effectively wherever and whenever they wish in a secure and compliant manner. It also provides a quick, easy and efficient means by which to access the services which the central office provides.

A further aspect which is central to the Keystone model is its culture. Keystone is far more than just a collection of individual lawyers accessing its platform; it is a cohesive law firm which delivers a full range of services to its clients either working individually or as part of a team, as each assignment requires. The flat structure, absence of politics, and inclusive culture, all facilitated by the extensive opportunities which the Group provides for its lawyers to network and socialise, all ensure that Keystone's lawyers are well connected and fully integrated in the firm.

The cash generative nature of Keystone's platform model and the associated lack of fixed salary overheads of its lawyers enables the Group to scale rapidly and without working capital pressures and constraints.

THE GROUP'S STRATEGY

The Group's strategy is to grow the business organically, focusing on the substantial opportunity which exists in the UK legal mid-market. Furthermore, management will consider international opportunities to the extent that they are consistent with and will enhance the core offering of Keystone.

Keystone's platform model and associated remuneration structure is attractive to high calibre, experienced lawyers from mid-market firms with their own client following, providing an alternative way to practise the law and the opportunity to earn more than in a conventional firm whilst enjoying a better work-life balance. The recruitment of such lawyers enables the Group to drive its growth and to develop a highly diverse client base. With each lawyer developing their own business opportunities and cross-referring work to Keystone colleagues, the Directors believe that the Group's growth is sustainable.

It is essential for the success of this strategy that the selection process focuses on the quality of the lawyers who are recruited. The key to building a successful law firm in the mid to long term is in maintaining the quality high as this creates a virtuous circle, making the opportunity more attractive to future candidates (and their clients) as well as reducing the principal risks associated with law firms (see Principal Risks and Uncertainties).

COMPOSITION OF THE BOARD, ITS SUBCOMMITTEES AND ITS MEMBERS (PRINCIPLE 5, PRINCIPLE 6 AND PRINCIPLE 9)

The Board generally comprises five Directors, two Executives and three Non-executives, reflecting a blend of different experiences and backgrounds. Directors' biographies setting out their experience, skills and independence are shown on page 13. The Board believes that the composition of the Board brings a desirable range of skills and experience in light of the Company's challenges and opportunities while at the same time ensuring that no individual (or a small group of individuals) can dominate the Board's decision making.

The Non-executive Directors are expected to devote such time as is necessary for the proper performance of their duties. It is anticipated that this will require them to spend a minimum of 24 days a year working for the Company. The Non-executive Directors meet during the year without the Executive Directors and provide effective balance and challenge. The Executive Directors are full time employees of the Company.

The Non-executive Directors keep their skill set up to date with a combination of attendance at CPD events and experience gained from other Board roles. The Executive Directors are employed full time in the Group and this is the best way of their keeping up to date. The Group's Nominated Adviser and the Company Secretary ensure the Board is aware of any applicable regulatory changes. All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.

The division of responsibilities between the Chairman and Chief Executive Officer has been agreed by the Board and is set out below.

ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE

The Chairman leads the Board ensuring its effectiveness and his role and responsibilities are clearly divided from those of the Chief Executive Officer. The Chairman:

- sets the Board agenda;
- ensures that the Directors receive accurate and timely information and that adequate time is available for discussion of all agenda items, in particular strategic issues;
- makes sure that all Directors, particularly the Non-executive Directors, are able to make an effective contribution;
- maintains a constructive relationship between the Executive Directors and the Non-executive Directors;
- has primary responsibility for leading the Board; and
- chairs Board meetings.

The Chief Executive Officer has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board. In addition, he has responsibility for managing the business of Keystone subject to the matters reserved for the Board. He has overall responsibility for the Group's development and expenditure and delivering on the budget prepared by the Finance Director and approved by the Board.

MATTERS RESERVED FOR THE BOARD

The Board is responsible for reviewing, formulating and approving the Group's strategy, budgets and corporate actions and overseeing the Group's progress towards its goals. This is formally documented in a schedule of matters reserved for Board approval and includes:

- Strategy and business plans, including annual budget;
- Structure and capital including dividends;
- Financial reporting and controls;
- Internal controls on risk management and policies;
- Significant contracts and expenditure;
- Communication with shareholders;
- Remuneration and employment benefits; and
- Changes to the Board composition.

CORPORATE GOVERNANCE STATEMENT

BOARD DECISIONS AND ACTIVITY DURING THE YEAR

The Board has a schedule of regular business comprising all the major financial and operational matters of the Group. The Board has established a number of committees, the work of which is described below. The Board has ensured that all areas for which it is responsible are addressed and reviewed during the course of the year. The Chairman, aided by the Company Secretary, is responsible for ensuring the Directors receive accurate and timely information. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted.

In addition to the Board meetings, there is regular communication between Executive and Non-executive Directors, including where appropriate updates on matters requiring attention prior to the next scheduled Board meeting. It is the Board's current practice that the Non-executive Directors meet periodically and at least annually, without the Executive Directors.

BOARD MEETINGS

Board meetings are held monthly and arranged by the Company Secretary. Where the subjects to be discussed call for it, the Company Secretary arranges for or prepares suitable papers which are then circulated to the Directors in advance. Additional ad hoc meetings and committee meetings are called as necessary, for example to approve the release of the Group's Annual Report, once it has been approved in principle in substantially the final form.

At least annually the Board will consider the Group's strategy and annual budget.

There are currently no plans in place for evolution of the corporate governance framework in line with the Group's plans for growth as the Board believes that the current structure of the Board is suitable for such growth plans in the short to medium term. However, the Board will keep this under regular review.

The table below shows the Directors' attendance at scheduled meetings of the Board and its committees during the year:

	Board	Audit	Remuneration
James Knight	11/11		
Ashley Miller	11/11	2/2	
Robin Williams	11/11	2/2	2/2
Peter Whiting	11/11	2/2	2/2
Simon Philips	11/11	2/2	2/2
Isabel Napper[1]	2/2		

[1] Isabel Napper joined the Board in December and has attended all meetings which happened during her tenure

DISCLOSURE COMMITTEE

The Disclosure Committee is available as needed to review how the Group should deal with price sensitive information and information that may be price sensitive information. The purpose of the Disclosure Committee is to provide a rapid response to the potentially urgent matter of required disclosures. All Board members are members of the Disclosure Committee as is the Company Secretary. The quorum of the Disclosure Committee is one of the Chief Executive Officer, the Finance Director, or the Company Secretary and any Non-executive Director.

The terms of reference are available on the Company's website.

NOMINATION COMMITTEE

The Nomination Committee is available as needed to manage the process of appointing new directors to the Board and to consider succession matters. The Committee is Chaired by Robin Williams and is comprised of James Knight and the Non-executive Directors. During the year the committee met twice in order to consider and manage the process of the appointment of a new Non-executive Director to the Board.

BOARD EFFECTIVENESS (PRINCIPLE 7)

During the year, the Group has carried out an annual Board effectiveness review. This was an internal review led by the Chairman involving all of the Directors. The format taken this year was an open forum discussion in which the overall approach, effectiveness and areas for improvement were discussed and considered.

No specific failings in effectiveness were identified and the review served to reinforce the Board's focus on the monitoring of risk.

RISK MANAGEMENT AND INTERNAL CONTROLS (PRINCIPLE 4)

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and the Group's assets. Such a system is designed to reduce and manage the risk of failing to achieve the Group's objectives. It is designed to provide a reasonable assurance against material misstatement or loss. The Board has considered the need for an internal audit function but has concluded that the internal control system in place is currently the most appropriate solution given the size and complexity of the Group. The Board revisits this decision periodically.

The Board is responsible for the identification and evaluation of major risks faced by the Group and for determining the appropriate course of action to manage those risks. The Company maintains a risk register which the Board considers regularly. The risk register assesses both the risks and the controls in place to prevent the risk crystallising as well as any mitigation which would exist should they materialise.

The Group takes a proactive approach to risk management which starts at the strategic level with the Group identifying areas of the law in which it will not operate. The Group then recruits to this risk profile. The recruitment process is controlled by a senior management team who are qualified and experienced solicitors and who have many years' experience of recruiting consultants to Keystone. The Group focuses on attracting experienced and well qualified lawyers with a client following from highly respected law firms, thereby reducing the risk profile of the lawyer base.

As a law firm, Keystone is regulated by the Solicitors Regulatory Authority ("SRA") as well as being subject to other legal regulation governing its industry and the economy as a whole (e.g. anti money laundering legislation, data protection rules (GDPR) etc.). As such, the Group has a dedicated compliance department, led by the Group's Compliance Officer and staffed by employed qualified solicitors, whose role it is to ensure compliance with all such regulation as well as handling any complaints or claims received from the Group's clients. The structure of Keystone ensures that this department is wholly independent of the lawyers, whilst the "open door collegiate" culture of the Group ensures that lawyers are more than happy to seek support and guidance from the team where they identify issues of potential concern. This department reports to the Chief Executive who is fully appraised of any regulatory matters being handled, complaints/claims made as well as the status of these and the Board receives regular updates as to the status of any significant regulatory matter, any claims made or complaints which the CEO believes may proceed to a claim.

The Group uses technology, with each new matter taken on being subjected to a risk questionnaire, as well as more traditional methods, such as file audits, to proactively monitor matters and actively engages with consultants to assess, understand and manage any risk that should arise. The Group's standard terms of business, provided to each client at the start of each engagement, advises the clients of the Group's complaints procedure; this procedure directs the clients directly to the compliance department. Furthermore, under the terms of the compliance agreement, which each consultant enters into with the Group, the consultants are required to report all risks, complaints and regulatory matters to the compliance function.

As the most significant risk for a law firm is associated with claims for professional negligence, one of the Group's significant contracts (and as such an item which requires Board sign off) is the renewal of the professional indemnity insurance. This ensures that the Board is the body which is ultimately responsible for assessing the appropriateness of the level of cover which the Group holds.

The financial procedures and controls of the Group are under the stewardship of the Finance Director (see Directors' biographies on page 13). These processes and controls are reviewed as part of the Group's audit on an annual basis, this includes a specific SRA audit to ensure compliance with the SRA's rules on client money, and the Group's auditors meet with the Audit Committee of the Board on a bi-annual basis without the presence of the Finance Director.

CORPORATE GOVERNANCE STATEMENT

CORPORATE CULTURE (PRINCIPLE 8)

One fundamental aspect of the success of Keystone is the culture of the Group. For the lawyers, the flat structure, transparent and consistent remuneration policy and absence of politics creates an extremely positive, open and encouraging environment in which they can thrive in driving forward their practices. Within the central office team we engender a positive client focused culture; this extends beyond the clients of the law firm to include the lawyers themselves, whom we treat as if they were clients. By engendering this supportive culture with our lawyers we ensure that they are free to focus on client development and delivering legal services which are wholly consistent with the Group strategy. As a business, we run regular social and networking events for our lawyers; this provides ample opportunities throughout the year to assess and monitor the state of the culture amongst our lawyers. Furthermore, the executive members of the Board work closely with the rest of central office team, thus guiding and enhancing the positive behaviours and attitudes which underpin the corporate culture.

As a law firm, Keystone is regulated by the SRA and as such has to comply with the SRA Code of Conduct. Central to this Code is a series of obligations placed on the Group and its consultants to operate with integrity and uphold the rule of law.

Keystone's business model drives positive behaviour. It aligns the interests of clients and lawyers, both of which are fulfilled through the Group and the support the lawyers receive and use in advising the clients.

UNDERSTANDING AND MEETING SHAREHOLDER NEEDS AND EXPECTATIONS (PRINCIPLE 2)

The Board places great emphasis on good communications with shareholders. The Group primarily communicates with shareholders via its Annual and Interim Reports. Following the issue of these, the Chief Executive and the Finance Director meet with shareholders and analysts. Further announcements may be made during the course of the year via RNS in satisfaction of the Board's reporting obligations in compliance with regulation and best practice.

The Group's AGM also provides an opportunity for shareholders to communicate directly with the Board and shareholder participation is encouraged. Details of the Group's AGM, and the business to be transacted at it, are announced in the usual way and reproduced on the Group's website.

In addition, the Chairman is available to meet major shareholders on request to discuss governance and strategy. The Senior Independent Director is also available to meet shareholders separately if requested. Reports of these meetings and any other shareholder communications during the year are provided to the Board. Shareholders can contact the Group Secretary by emailing CS@keystonelaw.co.uk. Use the heading "Shareholder contact" to request that a matter be brought to the Board's attention, or to arrange a meeting with the Chairman or Senior Independent Director.

WIDER STAKEHOLDER ENGAGEMENT AND SOCIAL RESPONSIBILITIES (PRINCIPLE 3)

The Board recognises the importance of the wider stakeholder groups, principally being: consultants and employees, clients and the Group's suppliers. The Group engages with each of these stakeholder groups regularly through a range of channels.

CONSULTANTS AND EMPLOYEES

Keystone's success is built on the calibre and commitment of its consultants and employees who share a common commitment to go above and beyond client expectation.

Keystone is characterised by its open and inclusive collegiate culture with consultants feeling free to share their views about the Group with management in an unhindered manner. The senior management and central office employees engage directly with the Group's consultants daily and meet with them in a range of different formats regularly throughout the year, providing plentiful opportunity for dialogue. Furthermore, Keystone conducts a formal annual survey in which the consultants provide their feedback on the service, support and infrastructure they receive as well as producing a quarterly internal magazine and sending out more regular bulletins by email or over Keyed In.

Keystone's employees are equally central to the success of the Group and on a periodic basis central office team are brought together for informal "town hall" style meetings. Keystone's central office is open plan and there is a good day to day dialogue between all members of staff who are encouraged to speak freely. Management is encouraged to ensure good engagement within its teams.

CLIENTS

Keystone's consultants have strong client relationships and as such normally have an open dialogue with their clients such that they receive regular feedback during the progression of each matter. Clients are also invited to give feedback directly to senior management in the Group's engagement letter which is sent to every client at the commencement of the matter.

As a regulated law firm, the services we provide are governed by the highest standards of professional practice and our internal compliance function works with our lawyers, our clients, our regulator and our ombudsman in this respect.

Our service and expertise regularly wins awards. A number of industry publications including The Lawyer, Legal Week, Chambers and Partners have independently attested to Keystone's very high level of client satisfaction.

SUPPLIERS

Each of our Group unit heads engages directly with our suppliers in their area. We engage regularly with our key suppliers. The heads of our Group units have direct access to the Board and discuss supplier matters both formally and informally as and when necessary.

COMMUNICATE HOW THE GROUP IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS (PRINCIPLE 10)

All announcements regarding AGMs or any other shareholder meetings, together with results of any votes held are reported on the Group's website which is also the source for historical financial reports and any regulatory news.

Activity of the Board and its subcommittees is shown in the body of this report, which itself will be published on our website.

REPORT OF THE AUDIT COMMITTEE

OVERVIEW

The Audit Committee is charged with the oversight of the internal financial controls and risk management systems, making recommendations to the Board on the appointment of auditors and the audit fee, monitoring and reviewing the conduct and control of the audit work as well as monitoring the integrity of all formal reports and announcements relating to the Group's financial performance. The Committee has unrestricted access to the Group's auditors. Full terms of reference are available on the Company's website.

The Audit Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditors. The Audit Committee, in its meetings with the external auditors, reviews the safeguards and procedures developed by the auditors to counter threats or perceived threats to their objectivity and independence and assesses the effectiveness of the external audit. The Group's policy on non-audit services performed by the external auditors is to address any issues on a case by case basis.

COMPOSITION AND MEETINGS

The Audit Committee has three members, all of whom are independent Non-executive Directors with one having recent and relevant financial experience with competence in accounting or auditing. The Finance Director attends the committee meetings by invitation.

The members of the Audit Committee are:
Peter Whiting (Chairman), Simon Philips and Robin Williams.

The Audit Committee has met twice during the year, once following the annual audit of last year's accounts and once following the half year. All members of the committee attended both meetings as did the Finance Director by invitation for part of each meeting. The auditors attended both meetings to provide feedback on their work to the committee and independently on the Finance Director.

INTERNAL FINANCIAL CONTROLS AND RISK MANAGEMENT FRAMEWORK

The Audit Committee is charged with oversight of the internal financial control and risk management framework in the business. This framework is intended to provide reasonable, but not absolute, assurance against material financial misstatement or loss. The Audit Committee has concluded that sound risk management and internal controls have been in operation throughout the period.

FINANCIAL MANAGEMENT AND REPORTING

The Committee is satisfied that the Annual Report and Financial Statements, taken as a whole, provide a fair, balanced and understandable assessment of the Group's performance, its strategy and business model as well as its financial position as at the end of the period and has advised the Board accordingly.

In reaching these conclusions, the Committee has considered the information provided by management and discussions held with the external auditors.

INTERNAL AUDIT FUNCTION

Given the Group's size and complexity, the Board does not consider it necessary to have an internal audit function at this time. This position will be reviewed annually.

EXTERNAL AUDIT

The Committee has reviewed and agreed the scope and methodology of the work undertaken by the Group's external auditors RSM. It has considered their independence and objectivity and has agreed the terms of their engagement and their fees.

RSM have been the Group's auditors since the Group's shares were admitted to AIM. A review of their independence and audit process effectiveness is performed each year before a recommendation is made to the Board to propose their reappointment at the AGM.

Peter Whiting
Chairman, Audit Committee

REPORT OF THE REMUNERATION COMMITTEE

OVERVIEW

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee reviews the performance of the Executive Directors, sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders and reviews and approves any proposed bonus entitlement. It is responsible for the management of the Group's share based incentive scheme and any future such schemes that may be put in place.

The Remuneration Committee meets as and when necessary, but at least twice each year. The Committee members have regard to the recommendations put forward in the QCA Code and, where appropriate, the QCA Remuneration Committee Guide and associated guidance. The Remuneration Committee comprises at least two independent Non-executive Directors and is chaired by a Non-executive Director who is appointed by the Board in consultation with the two independent Non-executive Directors.

The full terms of reference are available on the Company's website.

COMPOSITION AND MEETINGS

The members of the Remuneration Committee are:
Simon Philips (Chairman)
Peter Whiting
Robin Williams

During the year the Committee met twice and all members of the Committee were present.

DIRECTORS' REMUNERATION SUMMARY (AUDITED)

The remuneration of the Directors is set out in the table below:

£'000	Salary & Fees	Pension Contributions	**Total 2021**	Total 2020
James Knight	319	5	**324**	322
Ashley Miller	173	8	**181**	173
Simon Philips	40	–	**40**	44
Robin Williams	64	–	**64**	62
Peter Whiting	40	–	**40**	40
Isabel Napper[1]	7	–	**7**	–
	643	13	**656**	641

[1] Remuneration in respect of the two months following appointment to the Board

KEY ACTIVITIES

During the year the Committee:

- Considered the impact of the COVID-19 pandemic on the existing LTIP grants and following extensive consideration of the extent and nature of the disruption concluded that the existing targets for the 2018 award were no longer fit for purpose. Accordingly, the performance criteria for this grant were varied to reflect this;
- Considered which members of the senior management team should be qualifying individuals under the LTIP for the grant made during the year;
- Reviewed share allocation to qualifying individuals under the LTIP; and
- Reviewed remuneration arrangements for the Executive Directors and senior management team.

REPORT OF THE REMUNERATION COMMITTEE

LONG TERM INCENTIVE PLAN

The Group operates a long term incentive plan (the Keystone Law Long term incentive plan 2018). The main terms of the plan are as follows:

- The Remuneration Committee was authorised to grant performance share awards or nil-cost options to qualifying employees;
- Awards will be made subject to appropriate performance criteria;
- Any award made will be subject to a three year vesting period followed by a two year holding period, during which time employees may not sell the shares except insofar as necessary to pay for the tax arising from the grant;
- No single grant may have a value greater than 100% of the base salary of the individual to whom the grant is made; and
- The total number of shares which may be granted (net of any cancelled) under this scheme may not exceed 5% of the total share capital of the Company.

In July 2020, the Remuneration Committee approved the variation of the performance criteria, vesting and holding periods in respect of the award made in July 2018. Under the terms of this variation, the vesting period will now be four years and the target EPS at the end of the period will remain as per the original targets, the holding period post vesting is now one year post vesting.

In September 2020, performance share awards were issued to members of the senior management and Executive team. As per the terms of the scheme, these awards were subject to performance criteria, with 70% being linked to EPS growth and 30% linked to comparative total shareholder return with both elements being measured over a three year period. The Remuneration Committee considers that the targets are appropriate and are aligned with shareholder interests.

The fair value of the employee services received in exchange for these grants is recognised as an expense on a straight-line basis over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options or shares determined at the date of grant.

The awards are valued using the Monte Carlo (TSR component) and Black–Scholes (EPS component) option pricing models. Non-market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each balance sheet date to allow for options that are not expected to vest and the difference is credited to the Consolidated Statement of Comprehensive Income with a corresponding adjustment to reserves.

The following table shows Share Awards held by Directors:

	31 January 2020	Granted	**31 January 2021**
Ashley Miller	34,235	22,725	**56,960**
Total	34,235	22,725	**56,960**

DIRECTORS' INTERESTS

According to the register of Directors' interests maintained under the Companies Act, the following interests in shares of Group companies were held by the Directors in office at the year ends:

	No. of Shares
James Knight	10,554,402
Ashley Miller	247,672
Simon Philips*	350,000
Robin Williams	12,500
Peter Whiting	21,875

* Simon Philips is one of the beneficial owners of the shares held by Root Capital Fund II. Although the Non-executive Directors hold shares, their holdings are at a level which does not impinge their independence.

Simon Philips
Chairman, Remuneration Committee

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the financial statements of the Group for the year ended 31 January 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group during the year were the provision of legal services. The results for the year and the financial position of the Group are as shown in the annexed financial statements. A review of the business and its future development is given in the Chairman's and Chief Executive's statements.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 34. The Directors propose a final dividend of 10.6p per share subject to the approval at the Annual General Meeting on 5 July 2021. This dividend is comprised of two amounts, the first being an amount of 3.5p per share which is the remaining value which would have been paid in respect of 31 January 2020 had the pandemic not occurred and the balance of 7.1p per share in accordance with the established dividend policy.

LIKELY FUTURE DEVELOPMENT

Our priorities for the following financial year are disclosed in the CEO's Review on pages 07 to 09.

SUBSTANTIAL SHAREHOLDINGS

As far as the Directors are aware, the only notifiable holdings equal to or in excess of 3% of the issued ordinary share capital at 1 February 2021 were as shown in the table below:

	No. of Shares	% Holding
James Knight	10,554,402	33.75
Canaccord Genuity Wealth Management	3,735,762	11.95
Stancroft Trust	1,450,000	4.64
William Robins	1,383,698	4.40
Merian Global Investors (UK) Limited	1,334,710	4.27
Aegon Asset Management	1,334,150	4.27
Unicorn Asset Management	1,320,000	4.22
SVM Asset Management	1,059,000	3.39

DIRECTORS AND THEIR INTEREST

The Directors who served throughout the year except where otherwise stated and in place at the date of this report are as follows:

- James Knight
- Ashley Miller
- Robin Williams
- Peter Whiting
- Simon Philips
- Isabel Napper (appointed 1 December 2020)

DIRECTORS' REPORT

AUDITED DIRECTORS' REMUNERATION

Directors' remuneration payable in the year ended 31 January 2021 is set out in the Report of the Remuneration Committee.

DIRECTORS' INDEMNITIES

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's articles of association in respect of certain losses arising out of or in connection with the execution of their powers, duties and responsibilities.

The Company also purchased and maintained Directors' and Officers' Liability Insurance throughout the year.

SHARE CAPITAL

Details of share capital are given in note 18 to the financial statements.

EMPLOYEES

The Group operates an equal opportunities employment policy. The Group's policy on recruitment, development, training and promotion includes provision to give full and fair consideration to disabled persons, having particular regard to their aptitudes and abilities. The Group appreciates and values the input of all its employees and encourages development and training to enhance employee skills. The Group ensures that employees are aware of any important matters that may impact on the performance of the Group.

STREAMLINED ENERGY AND CARBON REPORTING

The Group is exempt from streamlined energy and carbon reporting requirements as it has low energy consumption of less than 40,000 kWh during the reporting period.

GOING CONCERN

The Group and Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is cash positive, has no debt, has a model which is strongly cash generative and has, to date, a strong trading performance. The Group's forecasts and projections show that the Group has sufficient resources for both current and anticipated cash requirements.

FINANCIAL RISK MANAGEMENT

Financial risk is managed by the Board on an ongoing basis. The key risks relating to the Group are outlined in more detail in note 28 to the consolidated financial statements.

The Group's principal risks and uncertainties are outlined in the Strategic Report.

ANNUAL GENERAL MEETING

The Company's AGM will be held on 5 July 2021.

POLITICAL DONATIONS

No political contributions were made during the year.

AUDITORS

A resolution to reappoint RSM UK Audit LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with Section 487(2) of the Companies Act 2006.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Board

Ashley Miller
Finance Director
28 April 2021

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have elected under Company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and have elected under Company law to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 for that period.

In preparing the Group and Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the Company financial statements; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC

OPINION

We have audited the financial statements of Keystone Law Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 January 2021 which comprise Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity Consolidated Statement of Cash Flows and Company Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included obtaining cash flow forecasts covering a period of 12 months from the date of sign off and reviewing these for reasonableness, including the associated assumptions and sensitivities. We also discussed with management the pipeline of opportunities and considered management's analysis of the potential impact of the COVID-19 outbreak on the group's business model and strategies. We reviewed the sensitivities provided by management that showed the impact of 25% reduced revenue and a model to show how long the business would be able to continue with no further revenue generation. In addition, we reviewed the disclosure included in the financial statements in relation to going concern and the appropriateness of the basis of preparation of the financial statements chosen by management. Based on the results of the audit procedures outlined above, we have no key observations to report.

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

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

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	**Group** Revenue and Accrued Income
Materiality	**Group** • Overall materiality: £298,000 (2020: £287,000) • Performance materiality: £223,000 (2020: £218,000) **Parent Company** • Overall materiality: £148,000 (2020: £145,000) • Performance materiality: £111,000 (2020: £108,000)
Scope	Our audit procedures covered, on a sample basis, 100% of the group's results

KEY AUDIT MATTERS

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

REVENUE RECOGNITION AND ACCRUED INCOME

Key audit matter description	Revenue is the most significant component of the financial statements and there is a risk that this could be materially misstated due to recognising revenue in the incorrect accounting period. Additionally, revenue is impacted by changes in the accrued income balance which is subject to judgemental decisions by management. The Group has recognised revenue of £54.8m in respect of lawyer fees billed and accrued in the year and revenue consists of a large number of relatively low value individual transactions. Due to the large volume of transactions in the year there is a risk that not all of the matters in the year have been appropriately recognised. The accrued income balance is calculated by reference to the historic performance of the business. The business has reviewed, over a number of years, the percentage of actual invoicing which relates to the prior year's activity and it applies these percentages to the Group's monthly forecast billing. There are inherent uncertainties in the estimations used. For the above reasons, revenue recognition including accrued income is considered to be a key audit matter. Refer to notes 2, 3, 4 and 17 in the financial statements for the disclosures relating to revenue and accrued income.

How the matter was addressed in the audit	Our audit procedures included: • Review of the appropriateness of the group's revenue polices in conjunction with IFRS 15 in order to gain comfort revenue has been recorded correctly. • Test of the key controls surrounding revenue to ensure they are operating as expected. • Substantive testing of a sample of revenue transactions back to cash receipts and requests for invoices to be raised by lawyers. • Analytical review of revenue trends in line with lawyer numbers, with reference to joiners and leavers and new matters created in the year. • Separate substantive testing of year end cut-off by reviewing a sample of invoices raised around the year end to ensure that the revenue has been accounted for in the correct period. • Assessment of the reasonableness of the approach to calculating the accrued income balance and reperformance of the calculation to ensure it is consistently applied and reasonable with reference to post year end trading. We noted a variance between the calculation and performance post year end but this resulted in an immaterial impact to profit and therefore has not been adjusted. A key observation, which management have acted on, would be that management should continually revisit the percentages used over the year in order to assess if the percentages used in the estimate remain appropriate or require updating for future years as the business grows.

OUR APPLICATION OF MATERIALITY

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

	Group	Parent company
Overall materiality	£298,000 (2020: £287,000)	£148,000 (2020: £145,000)
Basis for determining overall materiality	5% of Adjusted PBT	1% of Net Assets
Rationale for benchmark applied	Investors are interested in the return of their investment, especially in relation to dividends and therefore results of the year drive share price and the group's ability to pay dividends. We have taken the Adjusted PBT as calculated per the groups RNS announcements and discussed in the Financial Statements.	The value of the company is driven by its investment in Keystone Law Limited and as such its reasonable to base materiality on a benchmark associated which such.
Performance materiality	£223,000 (2020: £218,000)	£111,000 (2020: £108,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £14,900 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £7,400 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The group consists of two components, all of which are based in the UK. Full Scope statutory audits were performed on all components.

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

THE EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

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

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

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

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud for regulated entities, as defined in ISA 250B: having obtained an understanding of the effectiveness of the control environment.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
International Accounting Standards in conformity with the requirements of the Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation. Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Review of information submitted to HMRC, to ensure that this information was consistent with other financial information reported and inspected any correspondence with local tax authorities.
Employee Law	Held discussions with the compliance officer to be satisfied that the group is following guidance.

Regulatory Compliance	Confirmed with the compliance officer that all required communications with The Solicitors Regulatory Authority (SRA) has been made and that they are compliant with The Solicitors Act (the "Act") and the Solicitors Regulation Authority's Code of Conduct (the "Code") as they apply to the firm and all its staff The group undergo a separate SRA audit.

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

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Test of the key controls surrounding revenue to ensure they are operating as expected. Substantive testing of a sample of revenue transactions back to cash receipts and requests for bills to be raised by lawyers. Analytical review of revenue trends in line with lawyer numbers and number of matters per sector, with reference to joiners and leavers and new matters created in the year.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

USE OF OUR REPORT

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

Colin Roberts (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
28 April 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 JANUARY 2021

	Note	2021 £	2020 £
Revenue	4	**55,027,227**	49,630,634
Cost of sales		**(40,770,513)**	(36,402,826)
Gross profit		**14,256,714**	13,227,808
Depreciation and amortisation	5	**(874,110)**	(794,658)
Share based payments	5	**(208,671)**	(128,286)
Administrative expenses	5	**(7,706,481)**	(7,219,826)
Other operating income		**11,285**	75,227
Operating profit	6	**5,478,737**	5,160,265
Finance income	7	**39,515**	151,991
Finance costs	7	**(113,117)**	(86,365)
Profit before tax		**5,405,135**	5,225,891
Corporation tax expense	11	**(1,076,094)**	(1,063,271)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		**4,329,041**	4,162,620
Basic and diluted EPS (p)	12	**13.8**	13.3

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2021

	Note	2021 £	2020 £
Assets			
Non-current assets			
Property, plant and equipment			
– Owned assets	13	**323,940**	385,000
– Right-of-use assets	13	**1,335,297**	1,746,157
Total property, plant and equipment	13	**1,659,237**	2,131,157
Intangible assets	14	**6,108,606**	6,459,490
Other assets	16	**13,628**	13,628
		7,781,471	8,604,275
Current assets			
Trade and other receivables	17	**18,108,298**	16,561,439
Cash and cash equivalents		**7,371,300**	4,386,586
		25,479,598	20,948,025
Total assets		**33,261,069**	29,552,300
Equity and liabilities			
Equity			
Share capital	18	**62,548**	62,548
Share premium		**9,920,760**	9,920,760
Share based payments reserve		**380,162**	171,491
Retained earnings		**6,223,096**	3,958,134
Equity attributable to equity holders of the Parent		**16,586,566**	14,112,933
Non-current liabilities			
Lease liabilities	23	**1,015,924**	1,499,900
Deferred tax liabilities	19	**266,821**	336,999
		1,282,745	1,836,899
Current liabilities			
Trade and other payables	22	**14,032,341**	12,500,318
Lease liabilities	23	**538,544**	497,791
Corporation tax liability		**719,445**	541,892
Provisions	21	**101,428**	62,467
		15,391,758	13,602,468
Total liabilities		**16,674,503**	15,439,367
Total equity and liabilities		**33,261,069**	29,552,300

The financial statements on pages 34 to 66 were approved and authorised for issue by the Board of Directors on 28 April 2021 and were signed on its behalf by:

Ashley Miller
Director

28 April 2021

Keystone Law Group Plc
Registered No. 09038082

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2021

	Note	2021 £	2020 £
Assets			
Non-current assets			
Investment in Subsidiary	15	**9,380,162**	9,171,491
		9,380,162	9,171,491
Current assets			
Trade and other receivables	17	**7,467,168**	4,774,758
		7,467,168	4,774,758
Total assets		**16,847,330**	13,946,249
Equity and liabilities			
Equity			
Share capital	18	**62,548**	62,548
Share premium		**9,920,760**	9,920,760
Share based payments reserve		**380,162**	171,491
Retained earnings		**6,453,410**	3,767,279
Equity attributable to equity holders of the Company		**16,816,880**	13,922,078
Current liabilities			
Trade and other payables	22	**30,450**	24,171
Total liabilities		**30,450**	24,171
Total equity and liabilities		**16,847,330**	13,946,249

The Company's profit for the financial year was £4,750,210 (2020: £6,001,724).

The financial statements on pages 34 to 66 were approved and authorised for issue by the Board of Directors on 28 April 2021 and were signed on its behalf by:

Ashley Miller
Director
28 April 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2021

		Attributable to equity holders of the Parent				
	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2019	18	62,548	9,920,760	43,205	5,331,002	15,357,515
Profit for the year and total comprehensive income		–	–	–	4,162,620	4,162,620
Dividends paid in the year		–	–	–	(5,535,488)	(5,535,488)
Share based payments		–	–	128,286	–	128,286
At 31 January 2020	18	62,548	9,920,760	171,491	3,958,134	14,112,933
Profit for the year and total comprehensive income		–	–	–	4,329,041	4,329,041
Dividends paid in the year		–	–	–	(2,064,079)	(2,064,079)
Share based payments		–	–	208,671	–	208,671
At 31 January 2021	**18**	**62,548**	**9,920,760**	**380,162**	**6,223,096**	**16,586,566**

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2021

	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2019	18	62,548	9,920,760	43,205	3,301,043	13,327,556
Profit for the year and total comprehensive income		–	–	–	6,001,724	6,001,724
Dividend paid in the year		–	–	–	(5,535,488)	(5,535,488)
Share based payments		–	–	128,286	–	128,286
At 31 January 2020	18	62,548	9,920,760	171,491	3,767,279	13,922,078
Profit for the year and total comprehensive income		–	–	–	4,750,210	4,750,210
Dividend paid in the year		–	–	–	(2,064,079)	(2,064,079)
Share based payments		–	–	208,671	–	208,671
At 31 January 2021	**18**	**62,548**	**9,920,760**	**380,162**	**6,453,410**	**16,816,880**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2021

	Note	2021 £	2020 £
Cash flows from operating activities			
Profit before tax		5,405,135	5,225,891
Adjustments to cash flows			
Depreciation and amortisation	5	874,110	794,658
Share based payments	5	208,671	128,286
Finance income	7	(39,515)	(151,991)
Finance costs	7	113,117	86,365
		6,561,518	6,083,209
Working capital adjustments			
Increase in trade and other receivables		(1,546,859)	(2,050,713)
Increase in trade and other payables		1,532,023	925,257
Increase/(decrease) in provisions		38,962	(31,646)
Cash generated from operations		6,585,644	4,926,107
Interest paid		(17,826)	(8,710)
Interest portion of lease liability		(95,291)	(77,655)
Corporation taxes paid		(968,719)	(801,849)
Cash generated from operating activities		5,503,808	4,037,893
Cash flows from/(used in) investing activities			
Interest received		39,515	151,991
Purchases of property, plant and equipment		(51,306)	(403,501)
Net cash used in investing activities		(11,791)	(251,510)
Cash flows from financing activities			
Lease repayments		(443,224)	(207,946)
Dividends paid in year	25	(2,064,079)	(5,535,488)
Net cash (used in) financing activities		(2,507,303)	(5,743,434)
Net increase/(decrease) in cash and cash equivalents	24	2,984,714	(1,957,051)
Cash at 1 February	24	4,386,586	6,343,637
Cash at 31 January	24	7,371,300	4,386,586

COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2021

	Note	2021 £	2020 £
Cash flows from operating activities			
Profit before tax		210	1,724
		210	1,724
Working capital adjustments			
Increase in trade and other receivables		(2,692,410)	(450,310)
Increase/(decrease) in trade and other payables		6,279	(15,926)
Cash used in operations		(2,685,919)	(464,512)
Cash generated from operating activities		(2,685,919)	(464,512)
Cash flows from financing activities			
Dividend received from subsidiaries		4,750,000	6,000,000
Dividend paid		(2,064,079)	(5,535,488)
Net cash generated from financing activities		2,685,919	464,512
Net movement in cash and cash equivalents		–	–
Cash at 1 February		–	–
Cash at 31 January		–	–

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated as Keystone Law Group Limited on 13 May 2014 under the Companies Act 2006 (registration no. 09038082) and subsequently used as the vehicle to acquire Keystone Law Limited (the main trading company in the Group) and its subsidiaries on 17 October 2014. The Company was re-registered as a Public Limited Company on 10 November 2017. The Company was incorporated and is domiciled in England and Wales. The principal activity of the Group is the provision of legal services.

The address of its registered office is:

48 Chancery Lane
London
WC2A 1JF

The Financial Statements are presented in Pounds Sterling, being the functional currency of the Group.

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES

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

BASIS OF PREPARATION

The preparation of Financial Statements, in conformity with International Accounting Standards in conformity with the requirements of the Companies Act 2006 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

BASIS OF CONSOLIDATION

The Group Financial Statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 January 2021 and 2020.

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The acquisition method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

GOING CONCERN

The Group and Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is cash positive, has no debt, has a model which is strongly cash generative and has, to date, a strong trading performance. The Group's forecasts and projections show that the Group has sufficient resources for both current and anticipated cash requirements.

ACCOUNTING DEVELOPMENTS

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

Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16 (Effective 1 January 2021, endorsed 13 January 2021)

Amendments to IFRS4 Insurance Contracts – deferral of IFRS9 (effective 1 January 2021, endorsed 15 December 2020)

Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment, IAS37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018 – 2020 (effective 1 January 2022)

IFRS17 Insurance Contracts (effective 1 January 2023)

Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current and Non- current and Classification of Liabilities as Current or Non-current – deferral of Effective Date (effective 1 January 2023)

The directors do not expect the adoption of these standards and amendments to have a material impact on the financial statements.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions. The Executive Directors are of the opinion that the Group has only one reportable operating segment.

REVENUE

Income represents the fair value of services provided during the year on client assignments. Fair value reflects the amounts expected to be recoverable from clients, excluding VAT. Fee income is recognised as contract activity progresses, except where the final outcome cannot be assessed with reasonable certainty.

Fee income in respect of contingent fee assignments is recognised in the period when the contingent event occurs and collectability of the fee is assured.

Unbilled fee income on individual assignments is included as accrued income within receivables with reference to the stage of completion of the assignment.

OPERATING PROFIT

Operating profit is stated after all expenses, including those considered to be exceptional but before finance income or expenses.

ADJUSTED PBT

Adjusted PBT is utilised as a key performance indication for the Group and is calculated as follows:

	2021 £	2020 £
Profit before tax	**5,405,135**	5,225,891
Amortisation	**350,884**	350,884
Share based payments	**208,671**	128,286
One off impact of property changes	–	51,547
Adjusted PBT	**5,964,690**	5,756,608

SHARE BASED PAYMENTS

The cost of providing share based payments to employees is charged to the profit or loss over the vesting period of the related awards. The cost is based on the fair value of the awards of shares made determined at the date of the award using a combination of the Black–Scholes and Monte Carlo pricing models as appropriate given the vesting and other conditions attached to the awards. The value of the charge may be adjusted to reflect expected and actual levels of vesting.

DISBURSEMENTS

Disbursements are not included in income or expenses.

TAXATION

The corporation tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements and on unused tax losses or tax credits available to the Group. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amounts of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in its acquisition and installation.

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

DEPRECIATION

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Fixtures, fittings and equipment	25%–33% straight line
Leased property	Straight line basis over the lease term

GOODWILL

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

IMPAIRMENT OF INTANGIBLE ASSETS

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGU).

OTHER INTANGIBLE ASSETS

Lawyer relationships have been separately identified on acquisition and were recognised at fair value at the acquisition date. The fair value of the asset was calculated by reference to the net present value of the future benefits accruing to the Group from the utilisation of the asset discounted at an appropriate discount rate. These lawyer relationships are subsequently held at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset, which, in the case of lawyer relationships is estimated to be ten years.

INVESTMENTS

Fixed asset investments are stated at historical cost less provision for any impairment in value.

FINANCIAL INSTRUMENTS

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the underlying contractual arrangement. Financial instruments are recognised on the date when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at fair value. Financial instruments cease to be recognised at the date when the Group ceases to be party to the contractual provisions of the instrument.

Financial assets are included on the statement of financial position as trade and other receivables or cash and cash equivalents.

a. Trade and other receivables

Trade and other receivables are stated at their original invoiced value, as the interest that would be recognised from discounting the future cash receipts over the short credit period is not considered to be material. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts.

b. Other assets

Other assets financial assets comprise the minority investment held in Keypoint Law Pty Limited. This investment is included in non-current assets and is held at cost as management does not intend to dispose of it within twelve months of the end of the reporting period.

c. Trade and other payables

Trade and other payables are stated at their original invoiced value, as the interest that would be recognised from discounting the future cash payments over the short credit period is not considered to be material.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

TRADE RECEIVABLES

Trade receivables are amounts due from clients for services performed in the ordinary course of business.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

BORROWINGS

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

LEASES

Following the adoption of IFRS16 - Leases, a right-of-use asset and a lease liability are recognised for all leases except “low-value” and “short” term leases where lease payments are recognised on a straight-line basis over the lease term. The total liability under the lease is discounted with the discounted value being recognised as both an asset (right-of-use assets) and a lease liability (split between current and non current). The right-of-use asset is then depreciated on a straight-line basis over the term of the lease. During the course of the lease, interest is accrued on the lease liability such that the total value of the original discount is unwound over the life of the lease. In the statement of cash flows, payments of leases now appears within the financing section of the cash flow statement.

SHORT-TERM LEASES

Where the lease term is twelve months or less and the lease does not contain an option to purchase the leased asset, lease payments are recognised as an expense on a straight-line basis over the lease term.

INITIAL MEASUREMENT OF THE LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The Group has applied a discount rate of 5%. The lease term is the non-cancellable period of the lease plus extension periods that the Group is reasonably certain to exercise and termination periods that the Group is reasonably certain not to exercise.

Leases are cancellable when each party has the right to terminate the lease without permission of the other party or incurring more than an insignificant penalty. The lease term includes any rent-free periods.

SUBSEQUENT MEASUREMENT OF THE LEASE LIABILITY

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments.

Interest on the lease liability is recognised in profit or loss, unless interest is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group’s policy on borrowing costs.

SHARE CAPITAL

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

DEFINED CONTRIBUTION PENSION OBLIGATION

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the Financial Statements are described below.

RECOGNITION OF LAWYER RELATIONSHIPS

Lawyer relationships have been separately identified on acquisition and are held at amortised cost. The value attributed to these lawyer relationships is based on a multi-period excess earnings valuation for the lawyers present in Keystone Law Limited at the acquisition date relative to the revenue that they are forecast to generate over the following ten year period, less attrition. These lawyer relationships are estimated to have a useful life of ten years and are amortised on a straight-line basis each year.

RECOVERABILITY OF TRADE RECEIVABLES

Due to the nature of the business, there are high levels of trade receivables at the year end, and therefore a risk that some of these balances may be irrecoverable. Expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the ageing of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses").

AMOUNTS RECOVERABLE ON CONTRACTS (WORK IN PROGRESS "WIP")

The business has carried out a review of prior years' billing activity in order to identify what share of post year end billing relates to the previous financial year. This profile is then applied to the current year's budgeted billing in order to calculate the value of WIP valuation at the year end. The WIP valuation is then validated by reviewing the actual billing between the year end and the time the accounts are prepared to ensure that actual performance is in line with the expected profile. Were the actual billing to differ to the budget but all other things remained equal, then a 1% variance in billing would equate to a movement in revenue of £75,190 (2020: £66,429). This in turn would result in a change in the associated cost of sale of £55,829 and an impact to profit of £19,361 (2020: £17,208).

LEASE LIABILITY

The Group uses judgement to assess whether the interest rate implicit in the lease is readily determinable. When the interest rate implicit in the lease is not readily determinable, the Group estimates the incremental borrowing rate based on its knowledge of the business based on the Group having no external borrowings.

NOTES TO THE FINANCIAL STATEMENTS

4. REVENUE

The Group's revenue for the year from continuing operations is as follows:

	2021 £	2020 £
Rendering of services	54,797,081	49,407,721
Other revenue	230,146	222,913
	55,027,227	49,630,634

All revenue is derived from a single segment.

In accordance with IFRS8–Operating Segments, no single customer represented more than 10% of revenue for any of the years ended 31 January 2021 or 2020.

5. EXPENSES BY NATURE

Expenses are comprised of:

	2021 £	2020 £
Depreciation	112,366	74,276
Amortisation – intangible assets	350,884	350,884
Amortisation – right of use assets	410,860	369,498
Share based payments	208,671	128,286
Staff costs	3,790,848	3,414,691
Other administrative expenses	4,417,034	4,364,920
	9,290,663	8,702,555

Included within staff costs above are the costs of employed fee earners who are included within cost of sales (2021: £501,401; 2020: £559,785).

6. OPERATING PROFIT

Operating profit is arrived at after charging:

	2021 £	2020 £
Depreciation expense	112,366	74,276
Fees to auditors: audit fee	60,000	59,000
Fees to auditors: non audit fees		
Solicitors accounts rules audit	–	11,700
Corporation tax compliance	–	9,100

7. FINANCE INCOME AND COSTS

	2021 £	2020 £
Finance income		
Interest income on bank deposits	**39,515**	151,991
Finance costs		
Interest on bank overdrafts and borrowings	**(17,826)**	(8,710)
Interest on leases for own use	**(95,291)**	(77,655)
Total finance costs	**(113,117)**	(86,365)
Net finance costs	**(73,602)**	65,626

8. STAFF COSTS

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 £	2020 £
Wages and salaries	**3,307,043**	2,984,228
Social security costs	**360,521**	322,025
Pension costs, defined contribution scheme	**123,284**	108,438
	3,790,848	3,414,691

The average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

	2021 £	2020 £
Fee Earners	**9**	10
Administration and support	**47**	44
Total	**56**	54

The Company does not employ any employees and as such has no staff costs.

9. DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION

The Directors' remuneration is disclosed within the Directors' Report. The Directors are considered key management personnel. Employers NIC paid on Directors' remuneration in the year was £74,524 (2020: £71,875).

NOTES TO THE FINANCIAL STATEMENTS

10. EQUITY SETTLED SHARE BASED PAYMENT PLANS (LTIP)

The Group operates a long term incentive plan which has been approved by shareholders (the Keystone Law Long Term Incentive Plan 2018 (The Plan)). The Plan is a discretionary benefit offered for the benefit of selected key employees. Its main purpose is to increase the alignment of interest of the employees with the long term goals and performance of the business and its shareholders.

Under the terms of the scheme, awards may either be granted as Nil Cost options or Performance Share Awards and the type, value, performance conditions and periods as well as to whom the grants are to be made are at the discretion of the Remuneration Committee.

A summary of the structure of the rules of the Plan is set out below:

- Awards may either be granted as Nil Cost options or Performance Share Awards;
- Awards may be granted under this Plan during the ten year period following the date of approval;
- Maximum number of shares awarded (excluding those which have lapsed) under the Plan may not exceed 5% of the share capital of the Company;
- Maximum number of shares which may be awarded under any Share plan for the Company may not exceed 10% of the share capital of the Company in ten years preceding the date of issue;
- No individual may receive awards in any single year with a value greater than 100% of that individual's base salary;
- Awards are personal and non transferable;
- Grants shall be subject to a three year vesting period;
- Following vesting, shares are subject to a further two year holding period (save for allowing shares to be sold to pay the tax liability arising on the Vesting of the Award); and
- Reduction of Awards and Clawback provisions are included.

In July 2020, to ensure that the scheme targets reflected the disruption caused by the COVID-19 pandemic, the Remuneration Committee approved the following variation to the performance criteria of the awards granted in July 2018. The vesting period for both tranches was changed from three years to four years and the holding period post vesting was changed from two years to one year. The original EPS targets at the end of the period remain unchanged.

The Company has the following number of performance shares granted under Awards during the year (none had been exercised at 31 January 2021):

	2021	2020
Outstanding at 1 February	**161,193**	92,208
Granted	**117,955**	68,985
Outstanding at 31 January	**279,148**	161,193

The weighted average remaining contractual life of the performance shares was 1.9 years at 31 January 2021.

The following table shows Share Awards held by Directors:

	2021 £	2020 £
Ashley Miller		
Outstanding at 1 February	**34,235**	20,820
Granted	**22,725**	13,415
Outstanding at 31 January	**56,960**	34,235

The performance share awards issued include market-based performance conditions and have been valued using a combination of the Monte Carlo options pricing model (TSR tranche) and Black–Scholes method (EPS tranche). The charge for the year is £208,671 (2020: £128,286). The key assumptions used in the calculation of the fair value of the share based payments are as follows:

Granted July 2018

	EPS Tranche	TSR Tranche
Share price at grant date	£3.36	£3.36
Exercise price	£0.00	£0.00
Risk free rate	–	0.79%
Dividend yield	0.74%	0.74%
Expected term	3 years	3 years
Volatility (simulated TSR performance)	–	30%
Grant date TSR performance of Company	–	2.65%
Grant date median/upper quartile TSR performance of comparator group	–	-0.34%/0.90%
Correlation	–	5%
Discount for post-vesting transfer restrictions	16.6%	16.6%

Granted June 2019

	EPS Tranche	TSR Tranche
Share price at grant date	£5.27	£5.27
Exercise price	£0.00	£0.00
Risk free rate	–	0.63%
Dividend yield	1.71%	1.71%
Expected term	3 years	3 years
Volatility (simulated TSR performance)	–	30%
Grant date TSR performance of Company	–	6.44%
Grant date median/upper quartile TSR performance of comparator group	–	0.06%/1.34%
Correlation	–	4.1%
Discount for post-vesting transfer restrictions	16.2%	16.2%

Granted September 2020

	EPS Tranche	TSR Tranche
Share price at grant date	£4.775	£4.775
Exercise price	£0.00	£0.00
Risk free rate	–	0.63%
Dividend yield	2.05%	2.05%
Expected term	3 years	3 years
Volatility (simulated TSR performance)	–	38%
Grant date TSR performance of Company	–	6.8%
Grant date median/upper quartile TSR performance of comparator group	–	0.4%/2.8%
Correlation	–	14%
Discount for post-vesting transfer restrictions	20.3%	20.3%

NOTES TO THE FINANCIAL STATEMENTS

11. CORPORATION TAX EXPENSE

TAX CHARGED/(CREDITED) IN THE INCOME STATEMENT

	2021 £	2020 £
Current taxation		
UK corporation tax	**1,146,272**	1,133,449
Deferred taxation		
Unwinding of deferred tax liability	**(70,178)**	(70,178)
Tax expense in the income statement	**1,076,094**	1,063,271

The actual tax charge is higher than the standard rate of corporation tax in the UK applied to the profit before tax 2021: 19.9% (2020 higher: 20.3%).

The differences are reconciled below:

	2021 £	2020 £
Profit before tax	**5,405,135**	5,225,891
Corporation tax at standard rate 19% (2020: 19%)	**1,026,975**	992,919
Increase from effect of expenses not deductible in determining taxable profit	**49,119**	70,352
Total tax charge	**1,076,094**	1,063,271

12. EARNINGS PER SHARE

The calculations of earnings per share are based on the following profits and number of shares:

	2021 £	2020 £
Profit attributable to owners of the Parent	**4,329,041**	4,162,620
Amortisation	**350,884**	350,884
Share based payments	**208,671**	128,286
One off impact of property changes	**–**	51,547
Adjusted earnings	**4,888,596**	4,693,247

	2021 No of shares	2020 No of shares
Weighted average number of shares		
For basic earnings per share	**31,273,941**	31,273,941
Dilutive effect of grants under LTIP	**205,143**	135,227
For diluted earnings per share	**31,479,084**	31,409,168
Basic earnings per share (p)	**13.8**	13.3
Diluted earnings per share (p)	**13.8**	13.3
Adjusted basic earnings per share (p)	**15.6**	15.0

Adjusted basic earnings per share is calculated by taking adjusted earnings and dividing it by undiluted average shares for the year.

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets £	Furniture, fittings and equipment £	Total property, plant and equipment £
Cost or valuation			
At 31 January 2019	1,265,870	247,957	1,513,827
Additions	2,054,303	403,501	2,457,804
Disposals	(1,265,870)	–	(1,265,870)
At 31 January 2020	2,054,303	651,458	2,705,761
Additions	–	51,306	51,306
At 31 January 2021	**2,054,303**	**702,764**	**2,757,067**
Depreciation/Amortisation			
At 31 January 2019	519,204	192,182	711,386
Charge for the year	369,498	74,276	443,774
Disposal	(580,556)	–	(580,556)
At 31 January 2020	308,146	266,458	574,604
Charge for the year	410,860	112,366	523,226
At 31 January 2021	**719,006**	**378,824**	**1,097,830**
Carrying amount			
At 31 January 2021	**1,335,297**	**323,940**	**1,659,237**
At 31 January 2020	1,746,157	385,000	2,131,157
At 31 January 2019	746,666	55,775	802,441

The Company had no property, plant and equipment in either 2021 or 2020.

14. INTANGIBLE ASSETS

	Lawyer relationships £	Goodwill £	Total intangibles £
Cost or valuation			
At 31 January 2020 and 2021	**3,508,840**	**4,807,411**	**8,316,251**
Amortisation			
At 31 January 2019	1,505,877	–	1,505,877
Charge for the year	350,884	–	350,884
At 31 January 2020	1,856,761	–	1,856,761
Charge for the year	350,884	–	350,884
At 31 January 2021	**2,207,645**	**–**	**2,207,645**
Carrying amount			
At 31 January 2021	**1,301,195**	**4,807,411**	**6,108,606**
At 31 January 2020	1,652,079	4,807,411	6,459,490
At 31 January 2019	2,002,963	4,807,411	6,810,374

For the purpose of impairment testing, goodwill arising from the acquisition of Keystone Law Limited is allocated to the cash generating unit (CGU) that is expected to benefit from the synergies of the combination. Goodwill reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment.

An impairment review has been performed for the year ended 31 January 2021 and recoverable amounts have been determined based on value-in-use calculations. These calculations have assessed the projected future cash flows over the next five years based on financial budgets approved by management for the year ended 31 January 2022 and then projected for a further four years. A discounted cash flow model was prepared taking into account management's assumptions for growth and the historical growth rates experienced by the Group, using a discount rate of 11%.

Management does not foresee any realistic adverse movement in the assumptions used in the impairment review which would trigger the requirement for an impairment.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN SUBSIDIARY

COMPANY SUBSIDIARIES

Details of the Company's subsidiaries as at the end of each year were as follows:

			Proportion of ownership interest and voting rights held by the Group	
Name of subsidiary	Principal activity	Country of incorporation and principal place of business	**2021**	2020
Keystone Law Limited	Provision of legal services	England and Wales	**100%**	100%
Keystone Law (Guernsey) Limited	Dormant	England and Wales	**100%**	100%

Keystone Law Limited is owned by the Company whilst Keystone Law (Guernsey) Limited is owned by Keystone Law Limited. The registered office of all subsidiaries above is 48 Chancery Lane, London, WC2A 1JF.

The movement in the investment value of £9,380,162 (2020: £9,171,491) represents the cost of share awards granted under the company's long term incentive plan . For further details see note 10.

16. OTHER ASSETS

	2021 **£**	2020 £
Non-current financial assets		
Other assets	**13,628**	13,628

Other assets represent the value of the Group's minority investment in Keypoint Law Limited Pty, an Australian law firm. These assets are valued at cost.

17. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2021 £	2020 £	2021 £	2020 £
Trade receivables	–	–	10,381,433	10,084,511
Provision for impairment of trade receivables	–	–	(2,976,731)	(2,659,483)
Net trade receivables	–	–	7,404,702	7,425,028
Receivables from related parties	7,453,426	4,744,973	–	10,360
Accrued income	–	–	7,519,042	6,642,950
Prepayments	13,742	29,785	1,592,149	1,036,900
Other receivables	–	–	1,592,405	1,446,201
Total current trade and other receivables	7,467,168	4,774,758	18,108,298	16,561,439

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment of financial assets note.

Trade receivables stated above include amounts due at the end of the reporting period for which an allowance for expected credit loss has not been recognised as the amounts are still considered recoverable and there has been no significant change in credit quality.

The provision for impairment of trade receivables (analysed below) is the difference between the carrying value and the present value of the expected proceeds.

	2021 Gross £	2021 Provision £	2021 Expected Loss Rate %	2020 Gross £	2020 Provision £	2020 Expected Loss Rate %
0 to 30 days	3,438,200	–	0.0	3,612,605	–	0.0
31 to 60 days	1,814,914	–	0.0	1,634,222	–	0.0
61 to 90 days	875,870	–	0.0	1,024,966	–	0.0
91 to 120 days	599,953	–	0.0	589,719	–	0.0
4 to 6 months	344,544	–	0.0	292,601	26,757	9.1
6 months to 1 year	1,297,737	966,516	74.5	1,348,970	1,051,298	77.9
Over 1 year	2,010,215	2,010,215	100.0	1,581,428	1,581,428	100.0
	10,381,433	2,976,731	28.7	10,084,511	2,659,483	26.4

The Directors consider that the carrying value of trade and other receivables approximates to fair value.

NOTES TO THE FINANCIAL STATEMENTS

18. ALLOTTED, CALLED UP AND FULLY PAID SHARES – GROUP AND COMPANY

	As at 31 January 2021		As at 31 January 2020	
	No.	£	No.	£
Ordinary shares of £0.002	31,273,941	62,548	31,273,941	62,548
	31,273,941	62,548	31,273,941	62,548

RIGHTS, PREFERENCES AND RESTRICTIONS

Ordinary shares have the following rights, preferences and restrictions:

Ordinary shares have attached to them full voting, dividend and capital distribution (on winding up) rights; they do not confer any rights of redemption.

19. DEFERRED TAX

	Company		Group	
	2021 £	2020 £	2021 £	2020 £
Accelerated capital allowances	–	–	6,588	6,588
Timing differences on intangible assets	–	–	260,233	330,411
Deferred tax	–	–	266,821	336,999

20. PENSION AND OTHER SCHEMES

DEFINED CONTRIBUTION PENSION SCHEME

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £123,285 (2020: £108,437).

21. PROVISIONS

	Dilapidations provision £	Total £
At 31 January 2020	62,467	62,467
Charge for the year	38,961	38,961
At 31 January 2021	**101,428**	**101,428**

The Company has no provisions.

22. TRADE AND OTHER PAYABLES

	Company		Group	
	2021 £	2020 £	2021 £	2020 £
Trade payables	–	–	6,936,732	6,483,907
Accrued expenses	30,450	24,171	6,945,752	5,782,595
Amounts owed to group undertakings	–	–	–	–
Social security and other taxes	–	–	149,857	233,816
Other payables	–	–	–	–
Total trade and other payables	30,450	24,171	14,032,341	12,500,318

Included within the above accrued expenses is the liability for lawyer fees associated with the accrued income (2021: £5,585,486, 2020: £4,922,086).

The fair value of the trade and other payables classified as financial instruments is disclosed in the financial instruments note.

The Group's exposure to market and liquidity risks related to trade and other payables is disclosed in the financial risk management and impairment of financial assets note. The Group pays its trade payables on terms and as such trade payables are not yet due at the balance sheet dates.

23. LEASE LIABILITIES

Disclosures of the carrying amounts of the right-of-use assets by class and additions to right-of-use assets has been provided in the Property, plant and equipment note.

	Company		Group	
	2021 £	2020 £	2021 £	2020 £
Current lease liabilities				
Lease liabilities	–	–	538,544	497,791

	Company		Group	
	2021 £	2020 £	2021 £	2020 £
Non-current lease liabilities				
Lease liabilities	–	–	1,015,924	1,499,900

The Group leases two floors of an office building for use in its operations. Lease terms are for five years and do not contain the automatic option to extend the term; therefore, this has not been included in the lease liability. There are no material future cash outflows which the Group is exposed to which are not reflected in the measurement of the lease liabilities.

The rate of interest implicit in the Group's lease arrangements is 5%. The carrying amounts of the lease obligations are all denominated in Pounds, with the fair value of the Group's lease obligations being approximately equal to their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

24. NET CASH

	Cash and Cash Equivalents £	Lease liabilities due within 1 year £	Lease liabilities due after 1 year £	**Total £**
Net cash as at 1 February 2020	4,386,586	(497,791)	(1,499,900)	**2,388,895**
Cash flows	2,984,714	443,223	–	**3,427,937**
Changes to lease liabilities	–	(483,976)	483,976	**–**
Net cash as at 31 January 2021	7,371,300	(538,544)	(1,015,924)	**5,816,832**

25. DIVIDENDS

During the year, the Company paid two interim ordinary dividends of 3.3p each (2020: a single interim ordinary dividend of 3.2p was paid). The first being the recommencement of normal dividend payments under our historic dividend policy and the second being half of the amount that would have been paid as a final dividend for the year ended 31 January 2020 were it not for the outbreak of COVID-19.

The total cash value of dividends paid in the year was £2,064,079 (2020: £5,535,488).

The Directors will propose a resolution at the coming AGM to pay a final dividend of 10.6p. This amount will be comprised of two elements; 3.5p being the remainder of the amount that would have been declared at the end of 31 January 2020 had we not suffered the pandemic and 7.1p consistent with our normal dividend policy.

26. RELATED PARTY DISCLOSURES

During the period, the Group has delivered services in the normal course of its business to Root Capital LLP and companies within the Root Capital Fund II portfolio. These transactions have been made at arm's length on normal commercial terms.

The value of transactions with Root Capital LLP and companies within the Root Capital Fund II portfolio, of which Simon Philips is a beneficial owner, was £53,004 in the year ended 31 January 2021, and £40,639 in the year ended 31 January 2020. The balance outstanding at 31 January 2021 was £12,621 (2020: nil).

Also during the year, the Group received income in respect of a management charge from Keypoint Law Limited Pty, an Australian law firm in which the Group holds a minority shareholding. The amount received was £104,700 (2020: £56,500); to the Group.

27. FINANCIAL INSTRUMENTS

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 2.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

FINANCIAL ASSETS

OTHER ASSETS

	Company		Group	
	2021 £	2020 £	**2021 £**	2020 £
Other assets	**–**	–	**13,628**	13,628
Other assets are held at cost	**–**	–	**13,628**	13,628

FINANCIAL ASSETS AT AMORTISED COST

	Company		Group	
	2021 £	2020 £	**2021 £**	2020 £
Cash and cash equivalents	**–**	–	**7,371,300**	4,386,586
Trade and other receivables	**7,453,426**	4,744,973	**16,516,149**	15,524,539
	7,453,426	4,744,973	**23,887,449**	19,911,125

The fair values of the financial assets are not materially different to their carrying values due to the short term nature of the current assets. Impairment losses on trade receivables disclosed in note 17 represent the only impairment gains or losses on financial instruments during the year.

FINANCIAL LIABILITIES

	0 to 6 months £	7 to 12 months £	1 to 5 years £	Pay when paid £	Total £
Trade payables	328,054	433,703	–	6,174,975	**6,936,732**
Accrued expenses	795,266	565,000	–	5,585,486	**6,945,752**
Lease liabilities	269,272	269,272	1,015,924	–	**1,554,468**
At 31 January 2021	**1,392,592**	**1,267,975**	**1,015,924**	**11,760,461**	**15,436,952**

NOTES TO THE FINANCIAL STATEMENTS

	0 to 6 months £	7 to 12 months £	1 to 5 years £	Pay when paid £	Total £
Trade payables	274,918	–	–	6,208,989	**6,483,907**
Accrued expenses	480,509	380,000	–	4,922,086	**5,782,595**
Lease liabilities	228,519	269,272	1,499,900	–	**1,997,691**
At 31 January 2020	**983,946**	**649,272**	**1,499,900**	**11,131,075**	**14,264,193**

Financial liabilities are held at amortised cost. There is no significant difference between the fair value and carrying value of financial instruments.

Amounts shown as pay when paid above principally reflect amounts payable in respect of lawyers' fees, as well as values payable to third party counsel and experts whose fees have been incurred on behalf of the Groups clients as disbursements.

The Company had accrued expenses of £30,450 (2020: 24,171) all of which would fall within the 0 to 6 months category above.

28. FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Finance Director through which it reviews the effectiveness of processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

CREDIT RISK AND IMPAIRMENT

Credit risk arises principally from the Group's trade and other receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

LIQUIDITY RISK

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Any liquidity risk is substantially reduced as the Group's principal liability, that of the lawyers' fees, are only payable once the clients have paid the invoices to which these fees relate.

The Board receives cash flow projections on a regular basis which are monitored regularly. The Board will not commit to material expenditure in respect of its ongoing development programme prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

INTEREST RATE RISK AND FAIR VALUE RISK

There is no significant interest rate risk in respect of temporary surplus funds invested in deposits and other interest-bearing accounts with financial institutions as the operations of the Group are not dependent on the finance income received.

CAPITAL RISK MANAGEMENT

The Group considers its capital to comprise its ordinary share capital and retained profits as its equity capital. In managing its capital, the Group's primary objective is to provide return for its equity shareholders through capital growth and future dividend income. The Group's policy is to seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

Details of the Group's capital are disclosed in the Statement of Changes in Equity.

There have been no other significant changes to the Group's management objectives, policies and procedures in the year nor has there been any change in what the Group considers to be capital.

CURRENCY RISK

The Group is not exposed to any significant currency risk. The Group also manages its currency exposure by retaining its cash balances in Sterling.

29. RESERVES

SHARE PREMIUM

The balance of the share premium account represents the value received for shares issued above their nominal value net of transaction costs.

SHARE BASED PAYMENTS RESERVE

The balance of the share based payments reserve represents the cumulative expense charged to the statement of comprehensive income in respect of share based payments.

RETAINED EARNINGS

The balance of the retained earnings reserve represents the cumulative profits of the business net of distributions made to shareholders.

Keystone Law
48 Chancery Lane
London
WC2A 1JF

www.keystonelaw.co.uk