ANNUAL REPORT AND ACCOUNTS

for the year ended 31 January 2023

KEYSTONE LAW

Attractive business model

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

Scalable

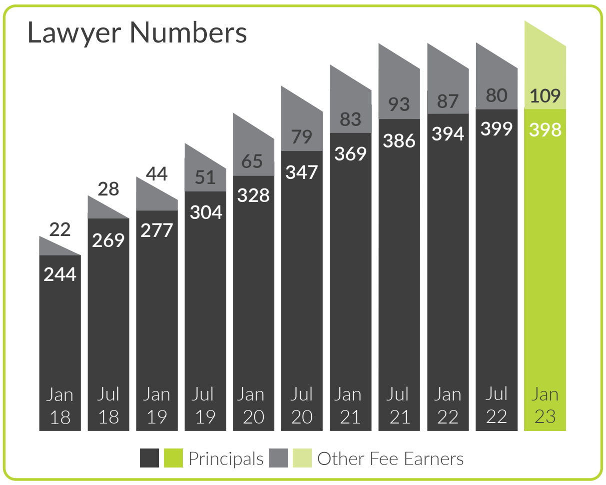
We grow organically by attracting high calibre lawyers from a large addressable market which is ripe for disruption.

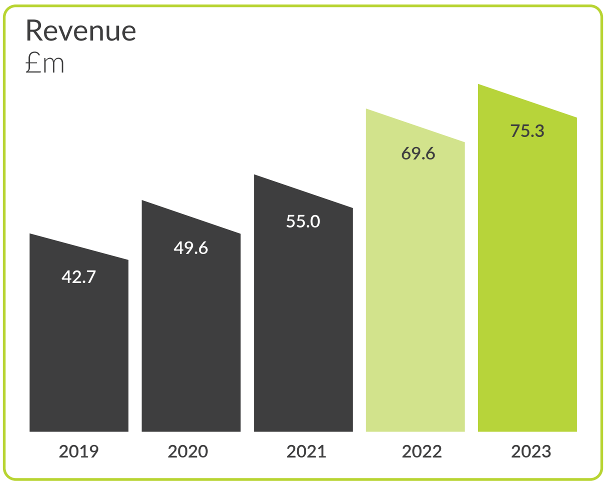
Supportive culture

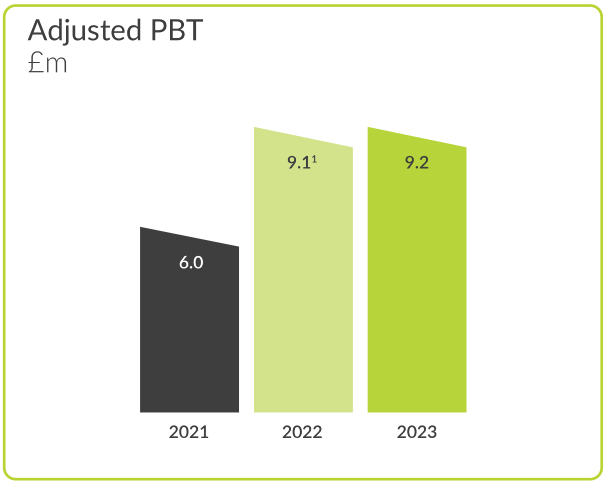
Our supportive and collaborative culture is one of the reasons why lawyers are attracted to us and remain with us.

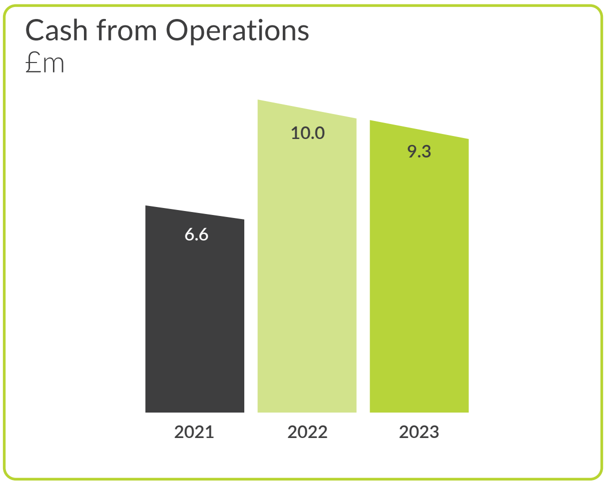
KEYSTONE LAW

FAST GROWING, PROFITABLE AND CASH GENERATIVE, KEYSTONE LAW IS DISRUPTING THE TRADITIONAL LEGAL MARKET.









(1) 2022 benefitted from cost savings of c£0.4m due to Covid-19 related restrictions

> **"KEYSTONE'S MODEL HAS BEEN VINDICATED IN SPADES; THE FIRM IS LIGHT YEARS AHEAD."**
>
> The Lawyer Awards 2020

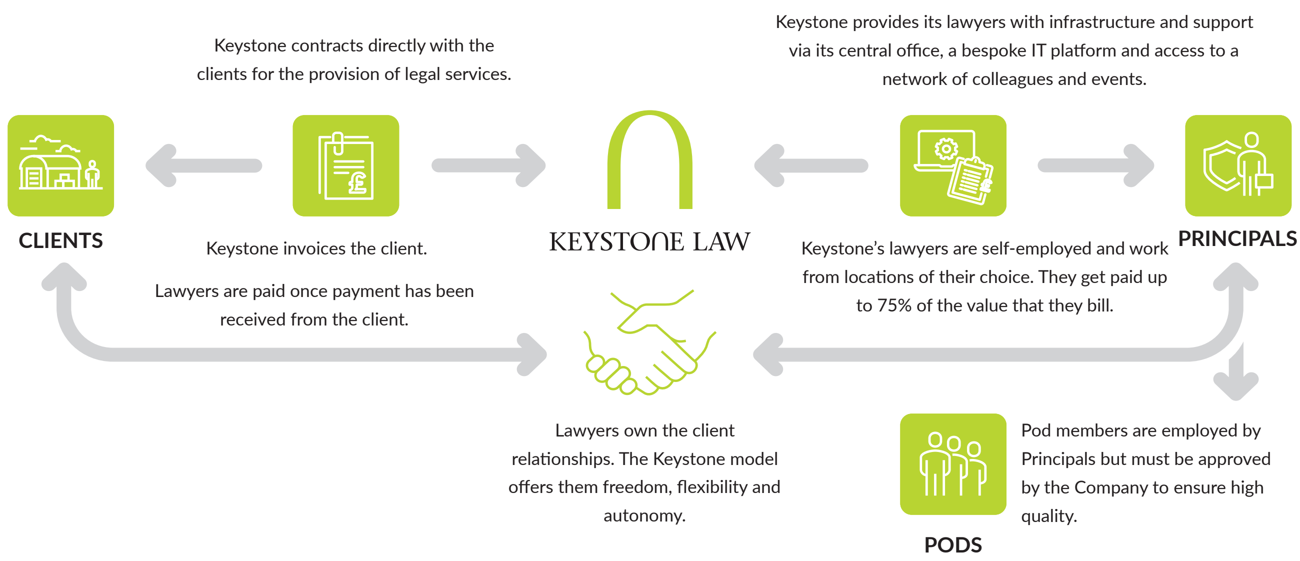
BUSINESS REVIEW AND GROWTH STRATEGY

KEYSTONE

Keystone is an award-winning innovative tech enabled full service law firm, providing a conventional legal services through its scalable and proven business model operating in an addressable market of over £10bn.

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 2021 as the happiest law firm.

Whilst the model provides our lawyers with independence, it also provides a strong network and sense of collaboration within Keystone, which we consciously and consistently encourage and promote. We commit substantial time, effort and resources 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.

OUR SCALABLE GROWTH STRATEGY

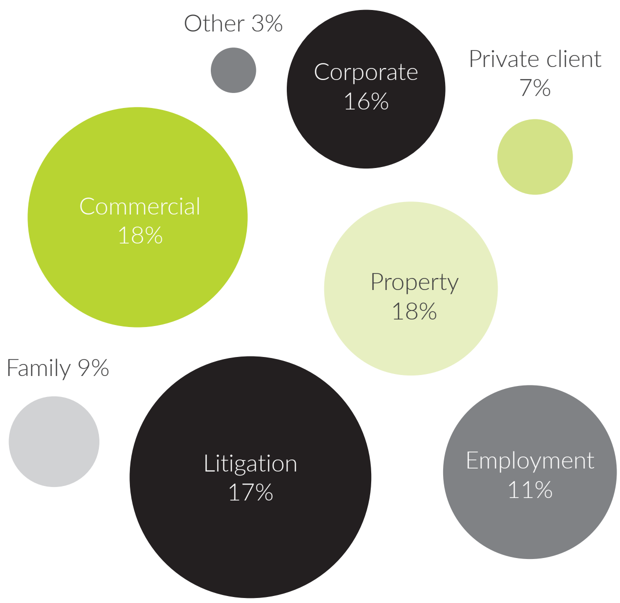
Keystone grows organically by recruiting high calibre, senior lawyers from across the UK legal mid-market who bring with them their client relationships and contacts. Our addressable market is large (accounting for over £10bn in annual fee income) and is ripe for disruption as increasing numbers of lawyers 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.

OUR SERVICES

Keystone delivers high calibre legal advice across the full range of legal services demanded by our clients. The Keystone model enables our lawyers to focus exclusively on the development and delivery of client legal work, ensuring that the service delivered is exemplary. Our client base, comprising predominantly of SME businesses as well as high and ultra-high net worth individuals, operates across a broad range of sectors. Our growth strategy ensures that we continually extend both our client base and our service offering as new lawyers bring both the expertise and their client relationships with them to Keystone. The graphic below shows the spread of revenue by matter work type for the current financial year.



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 £41.4 billion in 2021[1] (up 12.5% 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 £10 billion annual fee income and employ more than 34,000 qualified lawyers[2]. This is the segment of the market within which Keystone operates.

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, £20 billion annual fee income and employing over 35,500 qualified lawyers[2].

Increasing complexity

The UK market operates under three different regulatory environments, covering England and Wales (92.5% of the UK market by value), Scotland (6.0%) and Northern Ireland (1.5%). 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.

The UK market is diverse, comprising approximately 9,000 law firms in England & Wales in July 2021[3] and around 97,000[3] 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.

(1) TheCityUK UK legal services 2022
(2) The Lawyer Top 200, 2022
(3) Law Society 2022

FACTORS IMPACTING ON THE MID-MARKET LAW FIRM

- 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 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 has produced a marked shift in legal services pricing mechanisms expected by clients.
- Longer term macroeconomic factors – Over the last decade or so, the UK economy, as a whole, has had some challenging times. Within the legal market, this has manifested itself in increased pressure from clients on fees, whilst still having to combat the continued inflationary pressure on costs, especially property costs, and, more recently, salaries, which represent a substantial and largely fixed part of the cost base of most traditional law firms. Although the last couple of years have been very strong for UK law firms generally, we believe that this is merely a short term reprieve and that as the market cools the recent wage inflation will further exacerbate the long-term squeeze on profits for law firms operating in the "mid-market".
- Covid 19 effects – Since the outbreak of the pandemic, we have seen a series of short-term impacts to trading conditions caused by the pandemic as well as the government response to it. Some of these effects have been short to mid term, whilst others are still evolving and are likely to have a longer term effect on the legal landscape and beyond.

  Short to mid-term effects – The closing down of the UK economy, followed by the sporadic manner of the reopening, has undoubtedly resulted in some short-term dips and spikes in trading activity, as well as one off distortions to profits, with many costs either not being incurred or offset by government assistance. There has been extensive coverage of the fact that activity across the legal market has been extremely strong since the end of the UK lockdowns, with some of this being attributed to the release of pent up demand from the earlier periods of the pandemic. With hiring and promotion, largely, put on hold during the initial period of the pandemic, this high level of demand has led to a very hot, candidate-led recruitment market and well-documented, significant wage inflation.

  Evolving longer term effects – Throughout the pandemic, most of those working in the mid-market of the legal sector worked from home, as did a high proportion of those in other professional services roles, with greater or lesser extent of success, depending on how well their firms' technology was able to support this. This has caused a fundamental shift in the attitude of employees towards home working, with the vast majority realising, for the first time, just how well their role could be carried out in this way. It is clear that a significant number of those employed in the legal market expect a far higher level of flexibility in their roles, and whilst demand has remained strong many law firms have permitted this to a greater or lesser extent. However, as time has progressed, we have seen some indication that such an approach may come under pressure as client demand normalises and we see a resurgence in some of the established attitudes of presenteeism and control, which have always been prevalent within the legal industry.
- Increased billing targets – Within traditional firms, the most common response to the longer term macro-economic challenges 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. In response to the well documented wage inflation seen following the high levels of demand across the legal industry over the last couple of years, firms have, once again, resorted to the same tactic, with large pay rises often being accompanied by an equivalent increase in billing targets. To date, with strong client demand, these metrics have held up. However, as demand normalises, the ability of fee earners to hit targets and so justify the increased salaries will become more challenging and this, in turn, will feed into the pressure brought to bear on lawyers across the industry.
- 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.

MARKET REVIEW CONTINUED

- Changes in attitude towards "New Law"– It is no longer the case that the only route for a successful lawyer to develop their careers is via the traditional route to partnership within a conventional firm. Changes in attitude across the profession mean that those who pursue non-traditional routes can not only benefit from the financial or lifestyle upsides which these routes may offer, but also receive the professional recognition they aspire to from their peers within the more traditional sectors of the profession.

OPPORTUNITY FOR KEYSTONE LAW

The Keystone model is now well recognised and accepted within the mainstream of the UK legal mid-market, a market in which the traditional model continues to face long-term structural challenges. The manner in which traditional firms have responded to these challenges has resulted in a significant number of experienced, but dissatisfied, lawyers across the UK mid-market seeking alternative ways to practise law. Whilst the higher level of client demand during the last couple of years has served to alleviate some of the push factors which have traditionally driven lawyers to seek change in the short term, over the mid and long term we believe that the recent responses to wage inflation in the sector will only serve to exacerbate this situation as demand softens and the pressure on margins thereby increases.

The enforcement of home working during the Covid-19 pandemic has absolutely validated the concept of remote working within the legal industry, and 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 Group's growth and performance through the operation of similar business models.

The Directors are aware of a number of such firms, operating across a broad spectrum of the legal market place and varying in size and focus, with over 2,000 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 2023.

Keystone has continued to perform well, delivering another strong set of financial results with revenue growing 8.1% to £75.3m (2022: £69.6m), and adjusted PBT[(1)] increasing to £9.2m representing an adjusted PBT margin of 12.3% (2022: £9.1m, 13.0%, having benefitted from cost savings of c.£0.4m). Cash generation, a key feature of the business model, has remained strong, with cash generated from operations of £9.3m (2022: £10.0m) representing an operating cash conversion of 96.5% (2022: 102.7%).

(1) Adjusted PBT is calculated by adding share based payment costs and amortisation of intangible assets to PBT. Details of these calculations are shown in the Financial Review on page 10.

DIVIDEND

In accordance with the Group's established dividend policy, the Board is proposing to pay a final ordinary dividend for the year ended 31 January 2023 of 10.9p per share (2022: 11.2p), bringing the total ordinary dividend for the year to 16.1p (2022: 15.7p).

OUR PEOPLE

On behalf of the Board, I would like to thank all of our Central Office team for their constant efforts. Their professionalism and commitment underpins the success of Keystone and, during the year, we have continued to invest in the team to ensure that the highest standards of professional support which we provide to our lawyers is maintained as we grow. In a period of such high demand for legal services, it is, of course, the efforts of our lawyers which have contributed strongly to these results and we also thank them for their ongoing commitment and dedication to their clients.

BOARD AND GOVERNANCE

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.

Simon Philips has now been on the Board for over eight years, having joined in October 2014, when Root Capital (later rebranded ScaleUp Capital) invested in Keystone and, as recently announced, he has decided to step down following the announcement of these results.

Salar Farzad has recently been appointed to the Board as Non-executive Director, serving as a member of the various committees of the Board, and, following Simon's resignation, he will assume the role of Chair of the Audit Committee.

On behalf of the Board, I would like to express my thanks to Simon for the significant contribution he has made during his tenure and to welcome Salar to the Board.

OUTLOOK

I am pleased to say that the current year has started well. Although the outlook for the UK economy remains somewhat uncertain, we are confident that Keystone will continue to grow and carry on delivering strong results.

Robin Williams
Non-executive Chairman
21 April 2023

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION AND HIGHLIGHTS

I am very pleased to be able to report another strong set of results for Keystone.

2023 has been a second consecutive year of strong client demand across the legal industry and our lawyers have taken full advantage of this situation to help drive increased revenue per Principal, thereby ensuring that Group revenue has increased by 8.1% to £75.3m (2022: £69.6m), whilst adjusted PBT increased to £9.2m (2022: £9.1m, having benefitted from cost savings resulting from the Covid-19 restrictions preventing face to face activities (PBT £8.3m, 2022: £8.3m)). The cash generative nature of the model has continued strongly, with cash generated from operations of £9.3m (2022: £10.0m), leaving the business with a closing cash balance of £9.2m.

Despite the very competitive legal recruitment market, we have ended the year with 398 Principals* (2022: 394) and a total of 507 fee earners (2022: 481).

THE RETURN OF FACE-TO-FACE NETWORKING

It has been a great benefit that we have been able to resume our programme of face-to-face networking and social events for our lawyers and clients this year. During lockdown, we had been unable to deliver a full programme of such events, and, whilst we had successfully used technology to meet many of the needs that in person events engender, there can be no doubt that the full potential of these activities is best achieved when people are physically together.

The Keystone events programme forms an essential part of our DNA, providing opportunities for our lawyers to come together to build and develop the bonds of collegiality and friendship, which enhance both the professional and personal experience of those working at Keystone.

The intangible value of our culture is essential in attracting and retaining high calibre lawyers seeking to build and develop their practices, whilst benefitting from the positive impact on their lives that working in such an environment has; it is one of the main reasons why our lawyers are so evangelical about Keystone. The culture is a living and breathing facet of the business, which we nurture and grow, and the events provide the forum for our lawyers to experience this first hand, whilst themselves contributing to its continuing growth.

The events address a multitude of professional and personal needs for our lawyers, ensuring that they know their colleagues extremely well, fomenting an environment in which work is cross referred. Multi-lawyer and multi-disciplinary teams come together to work harmoniously to fulfil the needs of our clients, something which is demonstrated by the fact that over 30% of work is cross referred.

* 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 is 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 interviewed and fully 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.

HIGHLY COMPETITIVE LEGAL RECRUITMENT MARKET

Our strategy remains clear and simple: to drive growth organically through recruitment of high calibre lawyers from across the mid-market segment of the UK legal services industry, whilst supporting those who join us to build and develop their practice, enabling them to focus exclusively on client development and legal work.

This year, client demand across the legal industry has remained strong and the most apparent impact of this has been the increased revenue per Principal (£190.0k, 2022: £182.5k), which has been the key driver of our revenue growth. This demand has also impacted the legal recruitment market on both the demand and the supply sides. On the demand side, most law firms across the sector have been actively recruiting in order to fulfil the client demand, which has led to significant wage inflation as firms have competed for talent by offering substantial pay packages. This, in turn, has created a candidate led market, where the balance of power has shifted towards employed lawyers who are presented with a variety of options forcing law firms to be more aggressive when it comes to retaining lawyers by actively buying candidates back in.

On the supply side, many of the push factors, which in normal times cause lawyers to seek change, have been absent. The significant demand has meant that lawyers have had less difficulty in hitting targets, wage inflation has meant that they are better rewarded for the work they do, and, with the balance of power in their favour rather than the employers, they have been able to avoid politics and resist pressures to return to offices which would otherwise, probably, have been brought to bear. Whilst it is very difficult to predict timing, we do not believe that these factors will continue indefinitely.

Overlaid onto these factors, the instability in the UK macro economic climate created an environment in which candidates were less likely to seek change and this also impacted candidate flow during the second half of the year.

Throughout this, Keystone has remained an attractive and competitive proposition for potential candidates, having received 232 qualified applicants in the period (2022: 228) and made offers to 79 candidates (2022: 76) with 42 candidates accepting offers (2022: 56).

CONTINUING INVESTMENT IN IT

It has been another busy year for the team as they have worked to deliver continual functional improvements and operational enhancements across our proprietary software platform ("Keyed-In) and the wider IT estate.

Over and above the day-to-day enhancements and improvements, the team also delivered some larger projects focused on the simplification and automation of tools used by our lawyers in their marketing initiatives. This included designing and building a proprietary pitch creation tool so that lawyers can prepare highly professional, effective and personalised pitches quickly and easily. Another project was the development of a bespoke tool to drive greater operational efficiency into the process of preparing and submitting applications to the legal directories, a project which was nominated for Best Use of Technology in the Modern Law Awards.

OUR CENTRAL OFFICE TEAM BENEFIT FROM ONGOING HOME WORKING

As always, the Central Office team has provided outstanding support to our lawyers throughout the year. This support, and the manner in which is delivered, is another key tenet of Keystone's success. The team is committed to providing excellent service to our lawyers, whom we consider, in many ways, to be our clients, such that the service delivery ethos is second to none. This dynamic is radically different to that experienced by many lawyers in conventional law firms and is another feature of the Keystone model which attracts and retains our lawyers.

LOOKING AHEAD

The Group has made a positive start to the year as our lawyers have remained busy meeting client demand. Conditions in the recruitment market have started to change, with demand for lawyers falling from the extremely high levels experienced last year. On the supply side, the market remains tight as candidates continue to be cautious and those push factors, which generally encourage increased movement, are yet to have a significant impact. We believe, that as the year progresses, demand on the recruitment front will continue to tighten and we will see an increased candidate flow, which will further help Keystone grow its Principal numbers. Overall, we are confident that 2024 will be another good year for Keystone.

James Knight
Chief Executive
21 April 2023

FINANCIAL REVIEW AND STRATEGIC REPORT

KEY PERFORMANCE INDICATORS (KPIs)

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

- Revenue growth: 8.1% increase (2022: 26.5%)
- Adjusted PBT growth: 1.1% increase (2022: 52.3%)
- Adjusted PBT margin: 12.3% (2022: 13.0%)
- PBT growth: 0.3% increase (2022: 54.7%)
- PBT margin: 11.1% (2022: 12.0%)
- Adjusted basic EPS: 24.2p (2022: 23.6p)
- Operating cash conversion %[(1)]: 96.5% (2022: 102.7%)
- Trade debtor days: 36 (2022: 32)
- Qualified New Applicants[(2)]: 232 (2022: 228)
- Offers Made[(2)]: 79 (2022: 76)
- Offers Accepted[(2)]: 42 (2022: 56)

(1) Operating cash conversion is calculated utilising cash generated from operations and dividing it by the PBT before non-cash movements and net interest.

(2) Non-financial KPIs are commented on with the Chief Executive's review. The calculation of adjusted PBT, adjusted PBT margin and adjusted EPS is shown on the next page.

INCOME STATEMENT

I am pleased to report revenue for the year of £75.3m, an increase of 8.1% on the prior year. Our lawyers have taken full advantage of the continued strong client demand across the legal industry to drive revenue per Principal up by 4.1% to £190k (2022: £182.5k), whilst the average number of Principals increased from 381.5 to 396.

GROSS PROFIT

The gross profit of the business has risen this year by 6.4% to £19.6m (2022: £18.4m), with a gross profit margin of 26.0% (2022: 26.4%). The increased profit has been driven by the strong demand across the business driving additional revenue, which has been concentrated, marginally, more within our lawyers' Pods this year, such that we have benefitted from a slightly less enhanced margin from our centrally employed lawyers.

ADMINISTRATIVE EXPENSES

Administrative expenses have increased by 14% to £9.9m (2022: £8.7m). Staff costs, excluding the cost of NIC on LTIP awards (2023: £75k, 2022: £236k), increased by 14.2% £4.2m (2022: £3.7m), with average headcount increasing from 53 to 59 as we have continued to invest in our people to provide our lawyers with the highest standards of support, which they expect. Other administrative costs increased by 17.9% to £5.7m (2022: £4.8m). The 2022 cost base had benefitted by approximately £0.4m due to the combined impact of savings generated by not running the majority of in person networking events as well as incurring a lower professional indemnity insurance premium in the period, as these policies are priced against the turnover of the previous period, i.e. year ended 31 January 2021, during which revenue was adversely impacted due to Covid-19. Much of the remaining increase in the other administrative expenses this year has resulted from the implementation, during 2022, of new software tools to provide enhanced IT security, which fully impacted the cost base of the business during 2023.

OTHER COSTS

Amortisation, both of right of use assets and intangible assets, remained unchanged year on year with no changes to the underlying assets, whilst depreciation increased by 6.6%. The charge in respect of share based payments increased from £0.4m to £0.5m. The increases to interest rates, having been close to nil last year, have meant that we have seen relatively significant increases to both finance income and finance costs this year.

PBT, ADJUSTED PBT AND PBT MARGINS

Adjusted PBT is calculated as follows:

	2023 £	2022 £
Profit before tax	**8,384,677**	8,363,199
Amortisation of intangible assets	**350,884**	350,884
Share based payments	**502,708**	369,796
Adjusted PBT	**9,238,269**	9,083,879
PBT Margin	**11.1%**	12.0%
Adjusted PBT Margin	**12.3%**	13.0%

As mentioned above, profits in 2022 were enhanced by approximately £0.4m as other administrative expenses were artificially reduced by impacts of Covid-19 and related restrictions. Accordingly, had the cost base in 2022 not benefitted from this, then PBT would have been c.£8.7m and the underlying adjusted PBT would have increased by 6.3% (underlying PBT 5.3%). On this basis, PBT margin would have been c.11.4% and the adjusted PBT margin would have been c.12.5% with the slight decline this year being the result of a slightly lower gross profit margin.

TAXATION

The effective tax rate of 19.7% is higher than the standard rate and lower than that of the prior year (20.5%). 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 effective tax rate has reduced because the July 2018 LTIP award vested creating a tax deductible charge, whereas the accounting share based payment charge was non-deductible.

EARNINGS PER SHARE

Basic earnings per share increased from 21.3p to 21.5p, with fully diluted EPS being 21.2p (2022: 21.0p). Adjusted basic earnings per share (calculated by making the same adjustments to earnings as have been made in calculating adjusted PBT and divided by the average shares in issue this year) increased to 24.2p (2022: 23.6p).

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, which had been particularly strong in 2022, has remained strong this year at 96.5% (2022: 102.7%), generating cash from operations of £9.3m (2022: £10.0m). Capital expenditure was £0.06m (2022: £0.04m). Corporation tax payments increased to £2.0m (2022: £1.5m), reflecting the increase in profits in 2022 compared to 2021 (corporation tax is paid in quarterly instalments with half being due after the financial year end). The increase in interest rates has manifested itself in the increased value of net interest received (excluding the interest portion of lease payments) of £0.1m (2022: £0.01m net interest paid). Lease repayments of £0.5m (2022: £0.4m) reflect the normal run rate of payments under our existing leases which run until April 2024. As such, cash generated by the business in the year, being net cash flow pre dividend payments, was £6.9m (2022: £7.8m). The Group paid dividends of £8.3m, £5.2m in respect of Ordinary dividends and £3.1m as a Special dividend (2022: £4.7m Ordinary dividend). This left closing cash of £9.2m (2022: £10.5m) and no debt.

NET ASSETS

The Group's balance sheet is extremely strong with net assets having decreased from £18.9m to £17.9m by virtue of retained earnings of £7.5m, dividends paid of £8.3m and £0.2m movement in reserves to account for the vesting of LTIP awards.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are outlined on pages 17 and 18.

FINANCIAL REVIEW AND STRATEGIC REPORT CONTINUED

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 has a fundamentally low impact on 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 Group 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

The Board is proposing to pay a final ordinary dividend for the year ended 31 January 2023 of 10.9p per share (2022: 11.2p). This brings the total ordinary dividend for the year to 16.1p per share (2022: 15.7p per share). Subject to approval at the Annual General Meeting, the final dividend will be paid on 7 July 2023 to shareholders on the register at the close of business on 16 June 2023.

The cash value of dividends paid this year of £8.3m includes £3.1m of Special dividend.

On behalf of the Board

Ashley Miller
Finance Director
21 April 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG addresses the broad topic of corporate responsibility towards both the Group's stakeholders and society as a whole. These are areas to which the Board has always been committed and, this year, we have extended our reporting to provide further information beyond the boardroom.

ENVIRONMENTAL

By its nature, the legal services sector does not have a significant environmental impact. Over and above this, the Keystone model, with its minimal property footprint and a workforce which uses technology to support remote working and avoid commuting, further reduces that impact. That said, as a Board, we believe that we have a responsibility to minimise the impact we have, where possible, to support society's response to the climate crisis.

In the year ended 31 January 2022 we carried out an assessment of our carbon footprint for the first time, covering the period from the setup of the business in 2002 to 31 January 2022. This was carried out by an independent third party using the guidance and methodology outlined by the GHG protocol, which is the recognised global standard framework for measuring and managing greenhouse gas emissions. The results of this, together with those of this year's assessment, are shown in the tables below for the years ended 31 January as well as the cumulative impact since the business was set up. This year, we became a carbon neutral company through purchasing carbon credits offsetting the total emissions identified by these assessments. These credits provide support to the Gola Rainforest REDD+ conservation project. Conservation actions, as a direct result of this project, will protect the species within the 68,515 ha of tropical forest as well as providing livelihood support to impoverished communities in the region by helping them to adopt more sustainable production and farming techniques.

Our aim is to continue to reduce our carbon intensity and minimise our footprint wherever possible and, to the extent it is not possible to avoid emissions, we will continue to offset the impact through the use of the carbon credit system.

KEYSTONE EMISSION tCO_2e (pre purchase of carbon credits)

tCO2e	**2023**	2022	2002–2022
Scope 2 [(1)]	**13.4**	11.9	411.5
Scope 3 [(2)]	**233.8**	214.4	1,405.3
	247.2	226.3	1,816.8
Scope 2 (kWh)	**69,192**	55,991	

(1) Scope 2 represents indirect emissions generated by the purchase of electricity, heating and cooling.

(2) Scope 3 represents other indirect emissions generated by our business and people whilst carrying out their jobs.

CARBON INTENSITY

	2023	2022
tCO_2e per £m revenue	**3.28**	3.25
Revenue £'m	**75.3**	69.6
tCO_2e per person	**0.45**	0.43
No of people [(1)]	**553**	523

(1) No of people is the average number of employees, Principals and Pod Members in the year.

This year has seen a slight increase in the overall level of emissions and carbon intensity as more of our team have decided to make greater use of our offices in Chancery Lane. This is the first full year we have experienced without any form of Covid-19 restrictions since the outbreak of the pandemic in March 2020 and, as such, it was expected that there would be an element of rebound in office based activity. As a rapidly growing business, it is somewhat inevitable that the overall level of carbon emissions has and will continue to increase over time; however, our objective is to ensure that we continue to reduce carbon intensity by focusing on those areas which are within our control. This objective forms part of our carbon and waste management policy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONTINUED

CORPORATE CULTURE AND OUR PEOPLE

A fundamental aspect of the success of Keystone is its culture. 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 and drive 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; these provide 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 the 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.

EQUALITY AND DIVERSITY

We firmly believe in equality of opportunity and build our business by attracting and retaining the best talent for all roles. Our business model offers genuine flexibility to our lawyers, giving them control over the hours they work and providing the technological platform which enables them to deliver their high-quality service from the location of their choice; all of this with a remuneration structure which is uncapped and identical for all Principals. Equally, the vast majority of our central office team are now able to work remotely, benefitting from the same technology advantages enjoyed by our lawyers, using the offices as needed or desired.

The table below sets out the gender of our people as at 31 January.

	2023		2022	
	Male	Female	Male	Female
Board	**4**	**1**	4	1
Senior Management	**3**	**2**	3	1
Other Central Office	**12**	**42**	8	39
Lawyers	**272**	**235**	265	221
Total	**291**	**280**	280	262

OUR PEOPLE POLICIES

The Group has an extensive range of policies in place to govern behaviour and protect the rights of our people. These include, but are not limited to, the following areas:

- For employees, entitlements such as remuneration, pension, holiday, sickness, parental/bereavement leave and pay
- Internal procedures including complaints and grievances, disciplinary, whistleblowing
- IT and other facilities usage
- Anti-bribery and corruption, data usage, data protection and GDPR, anti-money laundering, anti-slavery, client confidentiality
- Health and safety and diversity and inclusion
- SRA (Solicitors Regulatory Authority) code of conduct also applies to all

SHAREHOLDERS

The Board places great emphasis on good communications with shareholders. The Group primarily communicates with shareholders via its annual and interim reports, which are issued following RNS announcements through the post and are also published on the Group's website. 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 and 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. Following the celebration of the AGM, the results of votes taken are published on our 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

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 (Principals and Pod Members) 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 the open culture engendered within the team encourages employees 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 win 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.

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 25 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 a Non-executive. He is also currently Non-executive Director of Headlam Plc and Churchill China Plc and Chairman of FIH Group Plc, which he is stepping down from in September 2023.

SIMON PHILIPS
Senior Independent 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 acted as a Non-executive Director and between October 2017 and April 2021, he was Chair of the Remuneration Committee and, since April 2021, he has acted as Senior Independent Director and Chair of the Audit Committee. He is an experienced entrepreneur in the software and outsourcing sectors and the CEO of the private equity firm ScaleUp Capital.

As previously announced, having served on the Board for nearly nine years, Simon has decided that now is the right time for him to step down as Non-executive Director of Keystone and this will take effect from today.

ISABEL NAPPER
Independent Non-executive

Isabel joined the Board in December 2020. Since April 2021, she has acted as a Non-executive Director and Chair of the Remuneration Committee. She is also a Non-executive Director and Chair of the Remuneration Committee of Skillcast Group Plc and Tristel Plc. She has a range of experience having acted as Non-executive Director for both private and public companies for over 15 years. Until 2015, she practised as a lawyer specialising in intellectual property and commercial law.

SALAR FARZAD
Independent Non-executive

Salar joined the Board in March 2023 as an Independent Non-executive. He is a chartered accountant with extensive commercial experience who has served as CFO for a range of organisations, including AIM Listed, private and divisions of large groups with Official Listings. He is also currently Non-executive Member and sits on the Nomination and Remuneration Committees of Trinity College London.

Upon the resignation of Simon Philips, Salar will Chair the Audit Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

The Corporate Governance Statement 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; 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 the mobility of people and the national economy, creating uncertainty and potential impact on the Group's business.	The IT platform on which the Group operates is designed to support remote working, mitigating any impact caused by lack of physical mobility. For the mitigation of economic downturn which a pandemic may cause, see below.
ECONOMIC DOWNTURN	A significant downturn in the UK economy impacting the demand for legal services.	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. Furthermore, the remuneration structure of our lawyers (fully variable and pay when paid) provides a substantial cushioning effect in the event of economic volatility. Finally, an economic downturn may provide further impetus to recruitment as conventional firms, which have high fixed costs, may struggle in this environment, thereby increasing the candidate flow.
LITIGATION, PROFESSIONAL LIABILITY AND UNINSURED RISKS	Due to the nature of a law firm and its role in 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 £50 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.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

	Risk	Mitigation
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 maintain relationships with existing clients. If the Group was 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.
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 not only based 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 was 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. Such a breach could also create reputational damage.	Hosting and support of all systems is outsourced to a large, reputable business which is dedicated to the provision of these services. It is contracted to keep all data safe, secure and backed up, and utilises 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 and are pleased to confirm that the Group has continued to comply with the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code").

BOARD EFFECTIVENESS

During the year, the Group has carried out an annual Board effectiveness review. This was an internal review led by the Chairman and involving all of the Directors. The format taken this year was an open forum discussion, during 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 and management of risk.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management is a key area of focus for the Board, which 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 Group 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. A summary of the principal risks and uncertainties, together with the relevant mitigation, is set out on pages 17 and 18 of this report.

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 with 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 16).

CORPORATE GOVERNANCE STATEMENT CONTINUED

COMPOSITION OF THE BOARD, ITS SUBCOMMITTEES AND ITS MEMBERS

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 16. The Board believes that the composition of the Board brings a desirable range of skills and experience in light of the Group's challenges and opportunities, whilst, at the same time, ensuring that no individual (or 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 OFFICER

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.

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 the 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	10/10		
Ashley Miller	10/10	2/2	
Robin Williams	10/10	2/2	1/1
Simon Philips	9/10	2/2	1/1
Isabel Napper	10/10	2/2	1/1

DISCLOSURE COMMITTEE

The Disclosure Committee is available as needed to review how the Group should deal with 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.

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 oversaw the recruitment process of Salar Farzad.

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 Group'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:

Simon Philips (Chair), Isabel Napper 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.

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.

Simon Philips
Chair, Audit Committee

OVERVIEW

The Remuneration Committee considers the performance of the Executive Directors and makes recommendations to the Board on matters relating to their total remuneration and terms of service. As part of that process, the Remuneration Committee sets the scale and structure of the Executive Directors' remuneration package including share based payments with due regard to best practice, corporate governance and the interests of shareholders. It is also responsible for the review and management of the Group's share based incentive scheme.

The Remuneration Committee meets when required, 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.

COMPOSITION AND MEETINGS

The members of the Remuneration Committee are:

Isabel Napper (Chair)

Simon Philips

Robin Williams

During the year, the committee only met once as it was not possible to meet in January, and the business which would have been addressed at that time was dealt with when it met on 14 February 2023.

DIRECTORS' REMUNERATION SUMMARY (AUDITED)

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

£'000	**Salary & Fees**	**Value of shares received under LTIP**	**Pension**	**Total 2023**	Salary & Fees	Pension	Total 2022
James Knight	**330**	**–**	**5**	**335**	327	3	330
Ashley Miller	**183**	**106**	**9**	**298**	179	9	188
Robin Williams	**68**	**–**	**–**	**68**	66	–	66
Simon Philips	**42**	**–**	**–**	**42**	40	–	40
Isabel Napper	**42**	**–**	**–**	**42**	40	–	40
	665	**106**	**14**	**785**	652	12	664

During the year, the share award granted in July 2018 vested. This is the first award granted under the Group's long term incentive plan to vest.

KEY ACTIVITIES

During the year, the Committee:

- assessed the level of performance achieved versus the performance criteria of the July 2018 LTIP award, which vested during the year and confirmed the vesting;
- considered which members of the senior management team should be qualifying individuals under the LTIP for the grant made during the year;
- reviewed the share allocation to qualifying individuals under the LTIP; and
- reviewed the remuneration arrangements for the Executive Directors and senior management team.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

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 is authorised to grant performance share awards or nil-cost options to qualifying employees;
- Awards are made subject to appropriate performance criteria;
- Any award made is 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 June 2022, performance share awards were issued to members of the senior management and an Executive Director. In accordance with the terms of the scheme, these awards were subject to performance criteria, with 70% of the award 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.

In September 2022, following the Committee's assessment of the performance of the business against the performance criteria, 100% of the performance share awards granted in July 2018 vested. In order to satisfy these awards, the business issued 92,202 ordinary shares in the capital of the Company.

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 2022	Vested	Granted	**31 January 2023**
Ashley Miller	**76,491**	**(20,820)**	19,118	**74,789**
Total	**76,491**	**(20,820)**	19,118	**74,789**

DIRECTORS' INTERESTS

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

	No. of Shares
James Knight	**8,965,512**
Ashley Miller	**208,492**
Simon Philips*	**32,000**
Robin Williams	**12,500**

* Simon Philips is one of the beneficial owners of the shares held by Root Capital Fund II which holds 12,000 shares. Although two of the Non-executive Directors hold shares, their holdings are at a level which does not impinge their independence.

Isabel Napper
Chair, 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 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group during the year were the provision of legal services, whilst the Company acts principally as a holding company. 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 together with the Financial Review and Strategic Report.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 34. The Directors propose a final ordinary dividend of 10.9p per share subject to the approval at the Annual General Meeting on 4 July 2023.

LIKELY FUTURE DEVELOPMENTS

Our priorities for the following financial year are disclosed in the Chief Executive's Statement on pages 08 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 2023 were as shown in the table below:

	No. of Shares	% Holding
James Knight	**8,965,512**	**28.58**
Canaccord Genuity Wealth Management	**4,478,138**	**14.28**
Liontrust Asset Management	**3,294,342**	**10.50**
AssetCo Plc	**2,572,200**	**8.20**
Stancroft Trust	**1,550,000**	**4.94**
Aegon Asset Management	**1,182,227**	**3.77**
Royal London Asset Management	**1,083,318**	**3.45**

DIRECTORS AND THEIR INTERESTS

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
- Simon Philips
- Isabel Napper
- Salar Farzad (Joined 20 March 2023)

The Directors' interests are included within the Report of the Remuneration Committee.

DIRECTORS' REPORT CONTINUED

DIRECTORS' REMUNERATION

Directors' remuneration, payable in the year ended 31 January 2023, 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.

BUSINESS RELATIONSHIPS

The manner in which the Directors have regard for the interests of the various stakeholders of the Group is set out within the ESG section of this report.

GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY

Reporting regarding these areas is included within the ESG section of this report.

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 a separate section of this report.

ANNUAL GENERAL MEETING

The Company's AGM will be held on 4 July 2023.

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
21 April 2023

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, 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 UK-adopted International Accounting Standards and have elected under Company law to prepare the Company financial statements in accordance with UK-adopted International Accounting Standards and applicable law.

The Group financial statements are required by law and UK-adopted International Accounting Standards 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 UK-adopted International Accounting Standards, subject to any material departures disclosed and explained in the Group and 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 AUDITOR'S 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 2023 which comprise the 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, 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 and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions 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 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards as applied in accordance with 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.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	**Group** • Revenue recognition and year end accrued income
Materiality	**Group** • Overall materiality: £431,000 (2022: £454,000) • Performance materiality: £323,000 (2022: £340,000) **Parent Company** • Overall materiality: £215,000 (2022: £454,000) • Performance materiality: £161,000 (2022: £340,000)
Scope	Our audit procedures covered 100% of revenue, 100% of total assets and 100% of profit before tax.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group 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 revenue being recognised in the incorrect accounting period. In addition, recognised revenue is impacted by the year end accrued income balance which is subject to management judgement. Judgement is applied by management in respect of the forecasting of billing and percentages applied in calculating the element relating to prior year work as further explained below and in the notes to the financial statements. The Group recognised revenue of £75.3m (2022: £69.6m) 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 risk that not all of the matters in the year have been appropriately recognised. The accrued income balance is calculated by reference to the historical performance of the business as well as making forward looking assumptions. The business has reviewed, over a number of years, the percentage of actual invoicing which relates to prior year 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 to the financial statements for disclosures relating to revenue and year end accrued income.
How the matter was addressed in the audit	Our audit procedures included: • Reviewing the appropriateness of the group's revenue polices in conjunction with IFRS 15 Revenue from contracts with customers in order to gain comfort revenue has been recorded correctly; • Assessing the design and implementation of key controls in respect of revenue recognition. We have not placed reliance on the operating effectiveness of controls relating to revenue recognition at the audit; • Performing data analytics testing using a recognised software tool to assess the occurrence and accuracy of revenue. The analytic tool assesses 100% of transactions affecting the relevant sales cycle (revenue, receivables, cash, etc.) during the year, leveraging work completed in other parts of the audit to gain assurance over expected/in-cycle transactions. The remaining population of unexpected, unusual and out-of-cycle transactions was then sampled, reviewed and agreed to supporting documentation as necessary. • Separately testing revenue 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; • Considering management's approach to calculating the year end accrued income balance and recalculating this to ensure it is reasonable with reference to post year end trading.
Key observations	We concluded that the recognition and recoverability assumptions made by management with respect to revenue and accrued income are reasonable based on the audit evidence obtained.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC - CONTINUED

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	£431,000 (2022: £454,000)	£215,000 (2022: £454,000)
Basis for determining overall materiality	4.7% of adjusted profit before tax (2022: 5% of adjusted profit before tax)	1.1% of net assets (2022: 2.4% of net assets)
Rationale for benchmark applied	Investors are interested in the return on their investment, particularly in relation to dividends; therefore the result for the year drives share price and the Group's ability to pay dividends. We have used the adjusted profit before tax as calculated per the Group's RNS announcements and as disclosed in note 2 to the financial statements.	The value of the parent company is driven by its investment in Keystone Law Limited and as such a net assets benchmark has been applied to determine overall materiality.
Performance materiality	£323,000 (2022: 340,000)	£161,000 (2022: £340,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £21,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £10,700 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, each of which is based in the United Kingdom.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	2	100%	100%	100%
Specific audit procedures	0	0%	0%	0%
Total	2	100%	100%	100%

Full scope audits were performed for both components.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included explanation of how the auditor evaluated management's assessment and the key observations arising in respect to that evaluation.

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.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC - CONTINUED

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.

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.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
UK-adopted IAS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation. Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Review of information submitted to HMRC, for consistency with other financial information reported and inspection of any correspondence with local tax authorities.
Employee Law	Review of HMRC IR35 guidance against the Group's business model.
Regulatory Compliance	Discussions with the compliance officer as to whether all required communications with the Solicitors Regulatory Authority (SRA) have been made. The Group undergoes a separate SRA audit.

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

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition and year end accrued income	The key audit matters section of our report explains this matter in more detail and also describes the specific audit procedures performed in response.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

USE OF OUR REPORT

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

William Farren FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
21 April 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 JANUARY 2023

	Note	2023 £	2022 £
Revenue	4	**75,259,930**	69,615,770
Cost of sales		**(55,686,460)**	(51,216,643)
Gross profit		**19,573,470**	18,399,127
Depreciation and amortisation	5	**(885,699)**	(877,991)
Share based payments	5	**(502,708)**	(369,796)
Other administrative expenses	5	**(9,927,058)**	(8,706,591)
Other operating income		**51,951**	6,334
Operating profit	6	**8,309,956**	8,451,083
Finance income	7	**221,810**	7,511
Financing costs	7	**(147,089)**	(95,395)
Profit before tax		**8,384,677**	8,363,199
Corporation tax	11	**(1,650,968)**	(1,713,566)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		**6,733,709**	6,649,633
Basic EPS (p)	12	**21.5**	21.3
Diluted EPS (p)	12	**21.2**	21.0

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2023

	Note	2023 £	2022 £
Assets			
Non-current assets			
Property, plant and equipment			
Owned assets	13	**187,677**	247,551
Right-of-use assets	13	**513,577**	924,437
Total property, plant and equipment	13	**701,254**	1,171,988
Intangible assets	14	**5,406,838**	5,757,722
Other non-current assets	16	**13,628**	13,628
		6,121,720	6,943,338
Current assets			
Trade and other receivables	17	**22,605,908**	19,973,814
Cash and cash equivalents		**9,151,875**	10,482,676
		31,757,783	30,456,490
Total assets		**37,879,503**	37,399,828
Equity and liabilities			
Equity			
Share capital	18	**62,732**	62,548
Share premium		**9,920,760**	9,920,760
Share based payments reserve		**1,028,247**	749,958
Retained earnings		**6,847,378**	8,150,365
Equity attributable to equity holders of the Parent		**17,859,117**	18,883,631
Non-current liabilities			
Lease liabilities	23	**109,484**	571,730
Deferred tax liabilities	19	**132,432**	202,610
Provisions	21	**183,501**	107,945
		425,417	882,285
Current liabilities			
Trade and other payables	22	**18,347,358**	16,143,166
Lease liabilities	23	**538,544**	538,544
Corporation tax liability		**709,067**	952,202
		19,594,969	17,633,912
Total liabilities		**20,020,386**	18,516,197
Total equity and liabilities		**37,879,503**	37,399,828

The financial statements on pages 34 to 63 were approved and authorised for issue by the Board of Directors on 21 April 2023 and were signed on its behalf by:

Ashley Miller
Director
21 April 2023

Keystone Law Group Plc
Registered No. 09038082

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2023

	Note	2023 £	2022 £
Assets			
Non-current assets			
Investment in Subsidiary	15	**10,252,666**	9,749,958
		10,252,666	9,749,958
Current assets			
Trade and other receivables	17	**8,655,480**	9,402,562
		8,655,480	9,402,562
Total assets		**18,908,146**	19,152,520
Equity and liabilities			
Equity			
Share capital	18	**62,732**	62,548
Share premium		**9,920,760**	9,920,760
Share based payments reserve		**1,028,247**	749,958
Retained earnings		**7,846,808**	8,383,503
Equity attributable to equity holders of the Company		**18,858,547**	19,116,769
Current liabilities			
Trade and other payables	22	**49,599**	35,751
Total liabilities		**49,599**	35,751
Total equity and liabilities		**18,908,146**	19,152,520

The Company's profit for the financial year was £7,500,000 (2022: £6,652,457). Under s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement.

The financial statements on pages 34 to 63 were approved and authorised for issue by the Board of Directors on 21 April 2023 and were signed on its behalf by:

Ashley Miller
Director
21 April 2023

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2023

		Attributable to equity holders of the Parent				
	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2021	18	62,548	9,920,760	380,162	6,223,096	16,586,566
Profit for the year and total comprehensive income		–	–	–	6,649,633	6,649,633
Transactions with owners						
Dividends paid in the year		–	–	–	(4,722,364)	(4,722,364)
Share based payments		–	–	369,796	–	369,796
At 31 January 2022	18	62,548	9,920,760	749,958	8,150,365	18,883,631
Profit for the year and total comprehensive income		–	–	–	6,733,709	6,733,709
Transactions with owners						
Dividends paid in the year		–	–	–	(8,261,115)	(8,261,115)
Share based payments vesting		184	–	(224,419)	224,419	184
Share based payment awards		–	–	502,708	–	502,708
At 31 January 2023	**18**	**62,732**	**9,920,760**	**1,028,247**	**6,847,378**	**17,859,117**

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2023

	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2021	18	62,548	9,920,760	380,162	6,453,410	16,816,880
Profit for the year and total comprehensive income		–	–	–	6,652,457	6,652,457
Transactions with owners						
Dividend paid in the year		–	–	–	(4,722,364)	(4,722,364)
Share based payments		–	–	369,796	–	369,796
At 31 January 2022	18	62,548	9,920,760	749,958	8,383,503	19,116,769
Profit for the year and total comprehensive income		–	–	–	7,500,001	7,500,001
Transactions with owners						
Dividend paid in the year		–	–	–	(8,261,115)	(8,261,115)
Share based payments vesting		184	–	(224,419)	224,419	184
Share based payment awards		–	–	502,708	–	502,708
At 31 January 2023	**18**	**62,732**	**9,920,760**	**1,028,247**	**7,846,808**	**18,858,547**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2023

	Note	2023 £	2022 £
Cash flows from operating activities			
Profit before tax		8,384,677	8,363,199
Adjustments			
Depreciation and amortisation	5	885,699	877,991
Share based payments	5	502,708	369,796
Finance income	7	(221,810)	(7,511)
Financing costs	7	147,089	95,395
		9,698,363	9,698,870
Working capital adjustments			
Increase in trade and other receivables		(2,632,094)	(1,865,516)
Increase in trade and other payables		2,204,192	2,110,824
Increase in provisions		75,556	6,517
Cash generated from operations		9,346,017	9,950,695
Interest paid		(70,791)	(104)
Interest portion of lease liability		(76,298)	(95,291)
Corporation taxes paid		(1,964,281)	(1,545,956)
Cash generated from operating activities		7,234,647	8,309,344
Cash flows from/(used in) investing activities			
Interest received		221,810	7,511
Purchases of property, plant and equipment		(64,080)	(39,858)
Net cash used in investing activities		157,730	(32,347)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		184	–
Lease repayments		(462,247)	(443,257)
Dividends paid in year	25	(8,261,115)	(4,722,364)
Net cash used in financing activities		(8,723,178)	(5,165,621)
Net (decrease)/increase in cash and cash equivalents	24	(1,330,801)	3,111,376
Cash at 1 February	24	10,482,676	7,371,300
Cash at 31 January	24	9,151,875	10,482,676

COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2023

	Note	2023 £	2022 £
Cash flows from operating activities			
Profit before tax		7,500,000	6,652,457
		7,500,000	6,652,457
Working capital adjustments			
Decrease/(Increase) in trade and other receivables		747,267	(1,935,394)
Increase in trade and other payables		13,664	5,301
Cash generated in operations		8,260,931	4,722,364
Cash generated from operating activities		8,260,931	4,722,364
Cash flows from financing activities			
Proceeds from issue of ordinary shares		184	–
Dividend paid		(8,261,115)	(4,722,364)
Net cash used in financing activities		(8,260,931)	(4,722,364)
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 limited by shares 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 companies within the Group.

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards.

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 UK-adopted International Accounting Standards 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 2023 and 2022.

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 CONTINUED

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 and Company have 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 for a period of at least one year from the approval of these financial statements.

ACCOUNTING DEVELOPMENTS

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

- Narrow scope amendments to IAS 1 and IAS 8 (effective for annual periods beginning on, or after, 1 January 2023);
- Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective for annual reporting periods beginning on or after 1 January 2023); and
- The Directors do not expect the adoption of these amendments to standards 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 who make strategic decisions. The Executive Directors are of the opinion that the Group has only one reportable operating segment.

REVENUE

The Group generates revenue, primarily, from delivering legal services to its clients. The services delivered are largely bespoke in their nature, being specific to the legal needs of the client and the matter. Accordingly, the amount of consideration received for any given assignment varies significantly. Matters are predominantly charged to clients on either an hourly rate or a fixed fee basis, although a small amount of work is also undertaken under conditional fee arrangements.

Revenue from matters is recognised as assignment activity progresses, except in respect of contingent fee assignments, which are recognised in the period when the contingent event occurs and collectability of the fee is assured.

Billing arrangements vary according to the nature of the work being undertaken and the client relationship. Most work is billed either monthly or at particular stages in the legal process.

Unbilled fee income on individual matters is included as accrued income within receivables and is valued according to the Group's Work in Progress ("WIP") valuation policy, which is set out in note 3.

2. ACCOUNTING POLICIES CONTINUED

OPERATING PROFIT

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

ADJUSTED PROFIT BEFORE TAX ("PBT")

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

	2023 £	2022 £
Profit before tax	**8,384,677**	8,363,199
Amortisation	**350,884**	350,884
Share based payments	**502,708**	369,796
Adjusted PBT	**9,238,269**	9,083,879

SHARE BASED PAYMENTS

The cost of providing share based payments to employees is charged to 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 as these are incurred as agent for the client. When incurred, these are recognised as an asset and categorised within trade and other receivables with a corresponding liability recognised within trade and other payables.

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 UK, the country in which 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 reduced to the extent that it is no longer probable that sufficient taxable profits will be available to enable their recovery.

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 when, or before, the leased asset is available for use by the Group.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES CONTINUED

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.

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.

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).

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries 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 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.

2. ACCOUNTING POLICIES CONTINUED

Financial assets are included on the statement of financial position as investments in subsidiaries, trade and other receivables, other assets, 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 financial assets comprise the minority investment held in Keypoint Law Pty Limited. This investment is included in non-current assets and, as management does not intend to dispose of it within twelve months of the end of the reporting period, is held at cost, which the Directors believe approximate to fair value.

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 receivables are initially recognised at the amount of consideration and subsequently at amortised cost, less expected credit losses.

The 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 together with other specific information of which the Group is aware, which is likely to affect the likely recoverability of the receivable.

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.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle that obligation, and when 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. Where a provision is made in respect of a professional negligence claim, which is covered by the Group's professional indemnity insurance, the amount provided would be the amount payable by the Group whether due to the policy excess or otherwise. Amounts in respect of any claims that are agreed (i.e. the timing and amount of payments are well understood) are recognised in accrued expenses rather than provisions.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES CONTINUED

LEASES

The Group assesses whether a contract is or contains a lease at inception of the contract. 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, the settlement of lease liabilities is included within financing activities for the repayment of principal and within operating activities for the interest paid.

SHORT-TERM LEASES

Where the lease term is 12 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. There were no critical accounting judgements in the current or prior year.

Management also makes estimates and assumptions concerning the future, that may impact 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, which have a significant effect of causing a material adjustment to the carrying amounts of assets and liabilities recognised in the Financial Statements within the next financial year, are described below.

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. A variance of 1% in the loss ratio reflected in the impairment provision would equate to a movement in revenue of £132,731 (2022: £102,224). Because amounts due to lawyers are only payable when the Group has been paid, this, in turn, would result in a change in the associated cost of sale of £99,548 (2022: £76,668) and an impact to profit of £33,183 (2022: £25,556).

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 gross value of WIP at the year end. A provision is made against this gross valuation reflecting the estimated recoverability of the gross billable value. 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 £61,873 (2022: £77,443). This, in turn, would result in a change in the associated cost of sale of £45,515 (2022: £38,626) and an impact to profit of £16,358 (2022: £38,817).

4. REVENUE

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

	2023 **£**	2022 £
Rendering of services	**74,879,088**	69,351,075
Other revenue	**380,842**	264,694
	75,259,930	69,615,770

All revenue is derived from a single segment.

As required to be disclosed by IFRS 8 Operating Segments, no single customer represented more than 10% of revenue for any of the years ended 31 January 2023 or 2022.

NOTES TO THE FINANCIAL STATEMENTS

5. EXPENSES BY NATURE

Expenses are comprised of:

	2023 £	2022 £
Depreciation	**123,955**	116,247
Amortisation – intangible assets	**350,884**	350,884
Amortisation – right of use assets	**410,860**	410,860
Share based payments	**502,708**	369,796
Staff costs	**5,102,472**	4,502,652
Other administrative expenses	**5,676,239**	4,814,546
	12,167,118	10,564,985

Included within staff costs above are the costs of employed fee earners who are included within cost of sales (2023: £851,653, 2022: £610,607).

6. OPERATING PROFIT

Operating profit is arrived at after charging:

	2023 £	2022 £
Depreciation expense	**123,955**	116,247
Fees to auditors: audit fee	**92,500**	70,000
Fees to auditors: interim review	**7,500**	7,500

7. FINANCE INCOME AND COSTS

	2023 £	2022 £
Finance income		
Interest income on bank deposits	**221,810**	7,511
Finance costs		
Interest on client monies held	**(70,791)**	(104)
Interest on leases for own use	**(76,298)**	(95,291)
Total finance costs	**(147,089)**	(95,395)
Net finance income/(costs)	**74,721**	(87,884)

8. STAFF COSTS

The aggregate payroll costs (including Directors' remuneration but excluding share based payment charges disclosed separately in note 5) were as follows:

	2023 £	2022 £
Wages and salaries	**4,347,674**	3,712,410
Social security costs	**579,237**	642,722
Pension costs, defined contribution scheme	**175,561**	147,520
	5,102,472	4,502,652

Included within the social security costs above is an amount of £74,626 (2022: £235,702) in respect of employer's national insurance contributions, which will be payable in respect of shares granted under the Group's LTIP scheme.

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

	2023 £	2022 £
Fee Earners	**12**	10
Administration and support	**59**	53
Total	**71**	63

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

9. DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION

	2023 £	2022 £
Salary & Fees	**665,190**	662,607
Pension	**14,643**	11,595
Employers NIC	**96,095**	76,418
Share based payments charge	**79,134**	66,971
Total	**855,062**	817,591

Details of the Directors' remuneration is disclosed within the Report of the Remuneration Committee with details of share based payments disclosed in note 10. The Directors are considered to be the only key management personnel.

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 order to ensure that the scheme targets reflected the disruption caused by the Covid-19 pandemic, in June 2020, the Remuneration Committee approved the variation of the performance criteria, vesting and holding periods in respect of the award made in July 2018, and, in April 2021, the Remuneration Committee approved a similar variation to the award made in June 2019. Under the terms of these variations, the vesting period for these awards became four years and the holding period post vesting became one year. The target EPS at the end of the vesting periods remained the same as the original targets. As a result, the July 2018 award vested during this year, whilst the awards from June 2019 and September 2020 will both vest during the next financial year.

The table below reflects the movement in the number of performance share awards outstanding during the year:

	2023	2022
Outstanding at 1 February	**410,398**	279,148
Vested	**(92,202)**	–
Granted	**146,326**	131,250
Outstanding at 31 January	**464,522**	410,398

The weighted average remaining contractual life of the performance shares was 1.3 years at 31 January 2023.

The following table shows Share Awards held by Directors:

	2023	2022
Ashley Miller		
Outstanding at 1 February	**76,491**	56,960
Vested	**(20,820)**	–
Granted	**19,118**	19,531
Outstanding at 31 January	**74,789**	76,491

10. EQUITY SETTLED SHARE BASED PAYMENT PLANS ("LTIP") CONTINUED

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 £502,708 (2022: £369,796). The key assumptions used in the calculation of the fair value of the share based payments are as follows:

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%

Granted June 2021

	EPS Tranche	TSR Tranche
Share price at grant date	£6.40	£6.40
Exercise price	£0.00	£0.00
Risk free rate	–	0.155%
Dividend yield	2.17%	2.17%
Expected term	3 years	3 years
Volatility (simulated TSR performance)	–	36%
Grant date TSR performance of Company	–	-1.8%
Grant date median/upper quartile TSR performance of comparator group	–	1.06%/2.97%
Correlation	–	13%
Discount for post-vesting transfer restrictions	19.1%	19.1%

NOTES TO THE FINANCIAL STATEMENTS

10. EQUITY SETTLED SHARE BASED PAYMENT PLANS ("LTIP") CONTINUED

Granted June 2022

	EPS Tranche	TSR Tranche
Share price at grant date	£7.10	£7.10
Exercise price	£0.00	£0.00
Risk free rate	–	1.79%
Dividend yield	2.21%	2.21%
Expected term	3 years	3 years
Volatility (simulated TSR performance)	–	32%
Grant date TSR performance of Company	–	9.4%
Grant date median/upper quartile TSR performance of comparator group	–	0.0%/1.7%
Correlation	–	13%
Discount for post-vesting transfer restrictions	17.2%	17.2%

11. CORPORATION TAX EXPENSE

TAX CHARGED IN THE INCOME STATEMENT

	2023 £	2022 £
Current taxation		
UK corporation tax	1,721,146	1,783,744
Deferred taxation		
Unwinding of deferred tax liability	(70,178)	(70,178)
Tax expense in the income statement	1,650,968	1,713,566

The actual tax charge is higher than the standard rate of corporation tax in the UK applied to the profit before tax 2023: 19.7% (2022: 20.5%).

The differences are reconciled below:

	2023 £	2022 £
Profit before tax	8,384,677	8,363,199
Corporation tax at standard rate 19% (2022: 19%)	1,593,089	1,589,008
Increase from effect of expenses not deductible in determining taxable profit	57,879	124,558
Total tax charge	1,650,968	1,713,566

12. EARNINGS PER SHARE

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

	2023 £	2022 £
Profit attributable to owners of the Parent	**6,733,709**	6,649,633
Amortisation	**350,844**	350,844
Share based payments	**502,708**	369,796
Adjusted earnings	**7,587,261**	7,370,273

	2023 No of shares	2022 No of shares
Weighted average number of shares		
For basic earnings per share	**31,307,540**	31,273,941
Dilutive effect of grants under LTIP	**472,212**	367,371
For diluted earnings per share	**31,779,752**	31,641,312
Basic earnings per share (p)	**21.5**	21.3
Diluted earnings per share (p)	**21.2**	21.0
Adjusted basic earnings per share (p)	**24.2**	23.6

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[1] £	Furniture, fittings and equipment £	Total property, plant and equipment £
Cost or valuation			
At 31 January 2021	2,054,303	702,764	2,757,067
Additions	–	39,858	39,858
Disposals	–	(124,268)	(124,268)
At 31 January 2022	2,054,303	618,354	2,672,657
Additions	–	64,080	64,080
Disposals	–	–	–
At 31 January 2023	2,054,303	682,435	2,736,738
Depreciation/Amortisation			
At 31 January 2021	719,006	378,824	1,097,830
Charge for the year	410,860	116,247	527,107
Disposals	–	(124,268)	(124,268)
At 31 January 2022	1,129,866	370,803	1,500,669
Charge for the year	410,860	123,955	534,815
Disposals	–	–	–
At 31 January 2023	**1,540,726**	**494,758**	**2,035,484**
Carrying amount			
At 31 January 2023	513,577	187,677	701,254
At 31 January 2022	924,437	247,551	1,171,988
At 31 January 2021	1,335,297	323,940	1,659,237

(1) Right-of-use assets relate to property leases.

The Company had no property, plant and equipment in either 2023 or 2022.

14. INTANGIBLE ASSETS

	Lawyer relationships £	Goodwill £	Total intangibles £
Cost or valuation			
At 31 January 2022 and 2023	**3,508,840**	**4,807,411**	**8,316,251**
Amortisation			
At 31 January 2021	2,207,645	–	2,207,645
Charge for the year	350,884	–	350,884
At 31 January 2022	2,558,529	–	2,558,529
Charge for the year	350,884	–	350,884
At 31 January 2023	**2,909,413**	**–**	**2,909,413**
Carrying amount			
At 31 January 2023	**599,427**	**4,807,411**	**5,406,838**
At 31 January 2022	950,311	4,807,411	5,757,722
At 31 January 2021	1,301,195	4,807,411	6,108,606

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 2023 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 2024 and then projected for a further four years. A discounted cash flow model was prepared taking into account management's assumptions for long-term growth and the historical growth rates experienced by the Group, using a pre tax 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:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group 2023	2022
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, which is £10,252,666 (2022: £9,749,958, 2021: £9,380,162) represents the cost of share awards granted under the Company's Long Term Incentive Plan. For further details see note 10.

16. OTHER ASSETS

	2023 £	2022 £
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, which the Directors consider to approximate to fair value.

17. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2023 £	2022 £	**2023 £**	2022 £
Trade receivables	**–**	–	**13,285,914**	12,266,858
Provision for impairment of trade receivables	**–**	–	**(4,114,670)**	(4,082,672)
Net trade receivables	**–**	–	**9,171,244**	8,184,186
Receivables from related parties	**8,636,669**	9,385,481	**–**	–
Accrued income	**–**	–	**10,030,078**	8,680,475
Prepayments	**18,811**	17,081	**2,271,739**	1,823,118
Unbilled disbursements	**–**	–	**970,078**	1,109,691
Other receivables	**–**	–	**162,769**	176,344
Total current trade and other receivables	**8,655,480**	9,402,562	**22,605,908**	19,973,814

The fair value of those trade and other receivables classified as financial instruments are disclosed in the financial instruments note 27.

17. TRADE AND OTHER RECEIVABLES CONTINUED

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. For all other categories of current receivables, there is no difference between the carrying value and the expected proceeds.

In the Company, there is no expected credit loss in respect of the receivables from related parties due to the low credit risk of Keystone Law Limited, being the counter party.

	2023 Gross £	**2023 Provision £**	**2023 Expected Loss Rate %**	2022 Gross £	2022 Provision £	2022 Expected Loss Rate %
0 to 30 days	**4,982,633**	**–**	**–**	4,683,432	10,258	0.2
31 to 60 days	**2,096,401**	**–**	**–**	1,585,671	59,002	3.7
61 to 90 days	**1,029,435**	**–**	**–**	1,059,987	37,349	3.5
91 to 120 days	**781,767**	**2,904**	**0.4**	659,660	199,882	30.3
4 to 6 months	**367,305**	**131,825**	**35.9**	430,269	39,543	9.2
6 months to 1 year	**2,146,285**	**2,097,853**	**97.7**	1,662,321	1,551,121	93.3
Over 1 year	**1,882,088**	**1,882,088**	**100.0**	2,185,517	2,185,517	100.0
	13,285,914	**4,114,670**	**31.0**	12,266,858	4,082,672	33.3

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

The movement in the provision for impairment of trade receivables was as follows:

	2023 £	2022 £
Balance at 1 February	**4,082,672**	2,976,731
Charge for the year	**1,145,978**	1,518,431
Amounts written off	**(1,113,980)**	(412,490)
Balance at 31 January	**4,114,670**	4,082,672

NOTES TO THE FINANCIAL STATEMENTS

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

	As at 31 January 2023		As at 31 January 2022	
	No.	**£**	No.	£
Ordinary shares of £0.002	**31,366,143**	**62,732**	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	
	2023 **£**	2022 £	**2023** **£**	2022 £
Accelerated capital allowances	**–**	–	**12,555**	12,555
Timing differences on intangible assets	**–**	–	**119,877**	190,055
Deferred tax	**–**	–	**132,432**	202,610

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 £175,561 (2022: £147,520). The amount outstanding for payment to the scheme at 31 January 2023 was £15,508 (2022: £13,024).

21. PROVISIONS

	2023 **£**	**2022** **£**
At 1 February	107,945	**101,428**
Charge for the year	75,556	**6,517**
At 31 January	**183,501**	**107,945**

The entire balance relates to dilapidation provision in respect of leased premises in Chancery Lane. These leases expire in April 2024.

The Company has no provisions.

22. TRADE AND OTHER PAYABLES

	Company		Group	
	2023 £	2022 £	2023 £	2022 £
Trade payables	**–**	–	**8,466,313**	7,484,190
Accrued expenses	**49,599**	35,751	**9,462,974**	8,309,204
Social security and other taxes	**–**	–	**418,071**	349,772
Total trade and other payables	**49,599**	35,751	**18,347,358**	16,143,166

Included within the above accrued expenses is the liability for lawyer fees associated with the accrued income (2023: £7,435,836; 2022: £6,441,299).

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 reporting 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	
	2023 £	2022 £	2023 £	2022 £
Current lease liabilities				
Lease liabilities	**–**	–	**538,544**	538,544

	Company		Group	
	2023 £	2022 £	2023 £	2022 £
Non-current lease liabilities				
Lease liabilities	**–**	–	**109,484**	571,730

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 incremental borrowing rate applied to 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.

The amounts charged to the income statement in respect of leases is comprised of two elements: the amortisation of the right of use asset (note 5) and the interest element (note 7). The total cash outflow in respect of leases was £538,544 (2022: £538,548).

NOTES TO THE FINANCIAL STATEMENTS

24. RECONCILIATION OF CHANGES IN CASH AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 February 2022 £	Cash flow £	Non cash movement £	**31 January 2023 £**
Cash and cash equivalents	10,482,676	(1,330,801)	–	**9,151,875**
Lease liabilities due within 1 year	(538,544)	538,544	(538,544)	**(538,544)**
Lease liabilities due after 1 year	(571,730)	–	462,246	**(109,484)**
Total net debt	9,372,402	(792,257)	(76,298)	**8,503,847**

	1 February 2021 £	Cashflow £	Non cash movement £	**31 January 2022 £**
Cash and cash equivalents	7,371,300	3,111,376	–	**10,482,676**
Lease liabilities due within 1 year	(538,544)	538,544	(538,544)	**(538,544)**
Lease liabilities due after 1 year	(1,015,924)	–	444,194	**(571,730)**
Total net debt	5,816,832	3,649,920	(94,350)	**9,372,402**

25. DIVIDENDS

During the year, the Company paid an interim ordinary dividend of 5.2p per share (2022: 4.5p) and the Directors will propose a resolution at the coming AGM to pay a final ordinary dividend of 10.9p per share, being £3,418,910 (2022: 11.2p, being £3,502,681 and a special dividend of 10.0p, being £3,127,394.10). This will bring the total value of ordinary dividend paid and declared for the year to 16.1p, being £5,049,949 (2022: 15.7p, being £4,910,009).

The total cash value of dividends paid in the year was £8,261,115 (2022: £4,722,364).

26. RELATED PARTY DISCLOSURES

During the period, the Group has delivered services in the normal course of its business to ScaleUp Capital (formerly Root Capital) and companies within their investment portfolio of which Simon Philips is a beneficial owner. These transactions have been made at arm's length on normal commercial terms. The value of transactions was £47,170 (2022: £247,592) and the balance outstanding at 31 January 2023 was £Nil (2022: £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 £137,238 (2022: £87,930) and £37,689 (2022: Nil) was outstanding at the year end.

In note 17, the Company shows amounts owed by related parties of £8,637,484 (2022: £9,385,481). This relates to amounts owed by the subsidiary Keystone Law Limited, as Keystone Law Group plc does not have a bank account and, as such, Keystone Law Limited acts as the treasury function for the Group. The balances are unsecured, interest free and repayable on demand.

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	
	2023 £	2022 £	**2023 £**	2022 £
Other assets	**–**	–	**13,628**	13,628
Other assets are held at cost	**–**	–	**13,628**	13,628

FINANCIAL ASSETS AT AMORTISED COST

	Company		Group	
	2023 £	2022 £	**2023 £**	2022 £
Cash and cash equivalents	**–**	–	**9,151,875**	10,482,676
Trade and other receivables	8,637,669	9,385,481	**20,334,169**	18,150,696
	8,637,669	9,385,481	**29,486,044**	28,633,372

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	89,574	615,709	–	7,761,030	**8,466,313**
Accrued expenses	1,384,052	643,086	–	7,435,836	**9,462,974**
Lease Liabilities	269,272	269,272	109,538	–	**648,082**
At 31 January 2023	**1,742,898**	**1,528,067**	**109,538**	**15,196,866**	**18,577,369**

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL INSTRUMENTS CONTINUED

	0 to 6 months £	7 to 12 months £	1 to 5 years £	Pay when paid £	Total £
Trade payables	107,942	464,067	–	6,912,181	**7,484,190**
Accrued expenses	1,237,203	630,702	–	6,441,299	**8,309,204**
Lease Liabilities	277,186	278,769	690,430	–	**1,246,385**
At 31 January 2022	**1,622,331**	**1,373,538**	**690,430**	**13,353,480**	**17,039,779**

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 amounts payable to third party counsel and experts whose fees have been incurred on behalf of the Group's clients as disbursements. Lease liabilities are shown at their undiscounted value.

The Company had accrued expenses of £49,599 (2022: £35,751) 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, whilst 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. As the lawyers are only paid for the work once the client has paid the invoice, the credit exposure is minimised to the gross profit margin element of any given invoice.

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, is 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.

28. FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS GENERAL OBJECTIVES, POLICIES AND PROCESSES CONTINUED

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 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.

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.

SHAREHOLDER NOTES

The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

Keystone Law
48 Chancery Lane
London
WC2A 1JF

www.keystonelaw.co.uk