Company No. 04650763

KEYSTONE LAW LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2022

KEYSTONE LAW LIMITED

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KEYSTONE LAW LIMITED
COMPANY INFORMATION

Directors

J Knight

A Miller

M Machray

W Robins

K Oliver

M Tunney

Company Secretary

Legal Clarity Limited

Registered office

48 Chancery Lane
London
WC2A 1JF

Bankers

HSBC Bank Plc
95 Gloucester Road
London
SW7 4SX

Auditors

RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

KEYSTONE LAW LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JANUARY 2022

The directors present their strategic report for the year ended 31 January 2022.

Principal Activities and Strategy

Keystone Law Limited is a full service regulated law firm, providing legal services to its clients who are predominantly corporate SMEs and high net worth private clients.

Keystone's principal strategy is to grow the business organically by attracting quality lawyers who have strong client relationships and the skills to win business. The level of support and infrastructure provided by Keystone, combined with the freedom, flexibility and remuneration engendered by its business model is highly attractive to UK lawyers, a circumstance that we believe will continue to develop further.

Business review and Key Performance Indicators (KPI's)

The following KPI's are used by the management to monitor the financial performance of the Company.

Revenue Growth: 26.5% increase to £69.6m (2021: £55.0m)

Profit before tax growth: 51.4% increase to 8.7m (2021: £5.8m)

Profit before tax %: 12.5% (2021: 10.5%)

Operating cash conversion %: 122.5% (2021: 141.3%)

Trade debtor days: 32 (2021: 38)

Net Assets: £3.9m (2021: £3.3m)

Income Statement

I am pleased to report revenue for the year of £69.6m, an increase of 26.5% on the prior year. Following drop in client demand last year, particularly during the first half of the year, the legal market has bounced back strongly with activity levels being very strong throughout the period. Our lawyers have taken full advantage of this demand to deliver enhanced revenue this year, whilst further growth has been delivered by the continued growth in the number of Principals, which have increased from 369 to 400 this year.

Gross Profit

The gross profit margin of the business has risen this year to 26.4% (2021: 25.9%). This increase has been driven by the strong demand across the business which has meant that our centrally employed lawyers have been in high demand, with higher utilisation rates generating enhanced margins.

Administrative Expenses

Administrative expenses have increased by 13.8% to £9.6m (2021: £8.4m). The largest single component of this is staff costs which increased by 18.3% to £3.9m (2021: £3.3m), with support staff increasing from an average of 47 in 2021 to 53 in 2022. Amortisation of right of use assets remained unchanged year on year with no changes to the underlying assets, whilst depreciation increased by 3%. The charge in respect of share based payments increased from £0.21m to £0.37m as a new grant was made and the cost of all historic grants continued to be charged to the income statement. Other administrative costs increased by 9% to £4.8m (2021: £4.4m). The Covid-19 related government restrictions which were in place for much of this year continued to depress the level of administrative expenses, primarily because face to face social and networking events for our lawyers and clients, were unable to be held for most of the year.

Cash

The Group's business model is strongly cash generative due to its most significant cost, the fees paid to lawyers, only being paid once Keystone has been paid for the work they have delivered. Operating cash conversion for the year was again very strong 122.5% (2021: 141.3%) generating cash from operations of £11.9m (2021: £9.3m). Capital expenditure was £0.04m, corporation tax payments were £1.5m and dividends of £6.6m, leaving closing cash of £10.5m and no debt.

Net Assets

The net assets of the Company have increased from £3.3m to £3.9m. This is driven by the results of the period, partly offset by the dividends paid to the Company's shareholder.

Looking ahead

It has been a good start to the year, with our lawyers remaining busy. The sanctions imposed on Russia since the invasion of Ukraine have had only a very limited and immaterial impact on us. We have also made a fair start to recruitment, with high-quality candidates continuing to be attracted to the business. As such, we are well placed to deliver another strong performance this year.

KEYSTONE LAW LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JANUARY 2022 (CONTINUED)

Principal risks and uncertainties

Set out below are the principal risks and uncertainties that the Company 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 Company is exposed and therefore the list is not intended to be exhaustive.

Global Pandemic and subsequent economic downturn

Risk
A virus that causes material sickness levels in the population requiring national steps which significantly impact mobility of people and the national economy, creating uncertainty and potentially impacts on the Group's business

Mitigation
The IT platform on which the Group operates is designed to support remote working and whilst currently our central office functions do not operate in this manner it is a simple step to make this happen. Furthermore, we deliver our services across a broad range of legal services supporting clients across a large range of sectors such that we have no dependence on any one area of law, sector of the economy or client. Finally, the remuneration structure of our lawyers (fully variable and pay when paid) provides a substantial cushioning effect in the event of economic volatility.

Litigation, professional liability and uninsured risks

Risk
Due to the nature of a law firm and its role of providing legal advice, the Company 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 Company's operations and may result in the Company having to pay substantial monetary amounts, any of which could impact on the reputation of the Company and result in a material adverse effect on Keystone's business and overall financial condition.

Mitigation
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 £30m.

Regulatory risk and compliance risks

Risk
The Company, 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.

Mitigation
The business has an experienced and robust compliance and risk management team which oversees the Company's policies and procedures ensuring that they meet the relevant regulatory requirements. The Company uses technology to support and drive compliant behaviour and to help the team to focus on areas of potential risk. Furthermore, the team calls upon external professional advice where needed to ensure that the business meets its compliance and regulatory obligations.

Personnel

Risk
For any business, personnel is a particularly prominent asset heavily contributing to its strength and attractiveness. The Company is heavily reliant on its lawyers to attract new clients and also maintain relationships with existing clients. If the Company were to lose the services of key lawyers with high client retention rates, or cease to be able to attract new lawyers, this could significantly impair the strategy and success of the firm from both a reputational and financial standpoint.

Mitigation
The Company 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 continue 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

Risk

Keystone's lawyers are self-employed, contracting with the Company predominantly via personal service companies. The self-employed status of the Company's consultants is based not only on the contractual structure but also on the way in which the arrangements operate in practice. There is a risk that some of the consultant lawyers may be deemed to be workers or employees, and as such, would be entitled to additional benefits including, but not limited to, paid annual leave and sick pay. If this were to occur then in addition to the rights for workers, such lawyers would gain rights for unfair dismissal. If the consultant lawyers were deemed to be employees, then the tax treatment would be different and the Company 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 Company and its lawyers is not one of self-employment, then the rights and obligations referred to above could also be triggered.

Mitigation

The Company monitors the legislative landscape for any developments which could have a bearing upon this relationship. Where necessary the Company would seek external professional advice to support it in assessing the implications of any such developments.

Competition

Risk

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 Company. 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 Company 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 Company's business operations and overall financial condition.

Mitigation

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 believe 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

Risk

IT forms an integral part of the business's operating model and as such any breakdown of the Company'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.

Mitigation

Hosting and support of all systems is outsourced to a large, reputable business who is dedicated to the provision of these services. They are contracted to keep all data safe, secure and backed up. They utilise a number of tools and appliances to maintain Keystone's data integrity and security.

The management of the group and the execution of the group's strategy are all subject to risks. The key business risks and uncertainties affecting the group are considered to relate to competition from other legal practices and changes in the legal industry, as well as the current economic outlook.

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

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

Approved by the Board on 8 June 2022 and signed on its behalf by:

A Miller
Director

KEYSTONE LAW LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JANUARY 2022

The directors have pleasure in presenting their report and the financial statements of the Company for the period ended 31 January 2022.

Directors of the Company

The directors who held office during the year were as follows:

J Knight

A Miller

M Machray

W Robins

K Oliver

M Tunney

Results and Dividends

The results for the year are set out in the income statement on page 14. During the year the Company paid a dividend of £6,650,000 (2021: £4,750,000).

Likely Future Development

Our priorities for the following financial year are disclosed in the Strategic report of these accounts.

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 16 to the financial statements.

Employees and Consultants

The Company operates an equal opportunities employment policy. The Company'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 Company appreciates and values the input of all its employees and encourages development and training to enhance employee skills. The Company ensures that employees are aware of any important matters that may impact on the performance of the Company.

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.

	2022		2021	
	Male	Female	Male	Female
Board	5	1	5	1
Other Central Office	8	39	8	33
Lawyers	265	221	257	195
Total	278	261	270	229

Business Relationships

The manner in which the Directors have regard for the interests of the various stakeholders of the Company is set out below:

KEYSTONE LAW LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JANUARY 2022

Shareholders

The Company is owned 100% by Keystone Law Group Plc which is quoted on AIM. The Board places great emphasis on good communications with the shareholders of the Group who are the ultimate beneficial owners of the Company. 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 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 Group Chairman is available to meet major shareholders on request to discuss governance and strategy. The Group's 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 Group Chairman or Group Senior Independent Director.

Wider stakeholder engagement

The Board recognises the importance of the wider stakeholder groups, principally being: consultants and employees, clients and the Company's suppliers. The Company 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 Company'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 Company 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 Company'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.

KEYSTONE LAW LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JANUARY 2022

Suppliers

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

Greenhouse Gas Emission, Energy consumption and Energy efficiency

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.

This year, we have had an audit of our carbon footprint from the set up of the business in 2002 to date. 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 audit are shown in the tables below for years ending 31 January as well as the cumulative impact since the business was set up. 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 offset the impact through the use of the carbon credit system. This will include offsetting the cumulative carbon emissions since 2002.

Keystone emission tCO2e

tCO2e	2022	2021	2020	2019	2018	Since 2002
Scope 2 [(1)]	11.9	10.9	21.3	14.3	18.2	411.5
Scope 3[(2)]	214.4	187.5	185.5	139.3	121.8	1,405.3
	226.3	198.4	206.8	153.6	140.0	1,816,8
Scope 2 (kWh)	55,991	46,659				

(1) Scope 2 represents indirect emissions from 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

	2022	2021	2020	2019	2018
tCO2e per £m revenue	3.25	3.61	4.13	3.61	4.43
Revenue £'m	69.6	55.0	49.6	42.7	31.6
tCO2e per person	0.43	0.42	0.51	0.47	0.51
No of people [(1)]	523	468	400	328	276

(1)No of people is the average number of employees, principals and pod members in the year

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 the carbon intensity by focusing on those areas which are within our control. This objective forms part of our carbon and waste management policy.

Going Concern

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

KEYSTONE LAW LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 January 2022 (CONTINUED)

Financial Risk Management

Financial risk is managed by the Board on an ongoing basis. The key risks relating to the Company are outlined in more detail in note 24 to the financial statements.

The Company's principal risks and uncertainties are outlined in the strategic report.

Political Donations

No political contributions were made during the year.

Auditors

A resolution to reappoint RSM UK Audit LLP as auditor 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 Auditor

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company'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 Company's auditors are aware of that information.

On behalf of the board

A Miller
Director

8 June 2022

KEYSTONE LAW LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have elected under Company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with 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 Company financial statements are required by law and UK adopted International Accounting Standards to present fairly the financial position and performance of the Company. 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 Company and of the profit or loss of the Company for that period.

In preparing the 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 Company financial statements;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KEYSTONE LAW LIMITED

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance and the Company uses the requirements of the UK Corporate Governance Code as an indicator of best practice. The Directors are committed to ensuring appropriate standards of corporate governance are maintained by the Company and this statement sets out how the Board has applied those requirements in its management of the business during the year ended 31 January 2022.

The Board recognises its collective responsibility for the long term success of the company. It assesses business opportunities and seeks to ensure that appropriate controls are in place to assess and manage risk. The Board agrees and monitors the progress and variety of Company activities. These include strategy, business plan and budgets, major capital expenditure and consideration of significant financial and operational matters. The Board also monitors the exposure to key business risks and considers legislative, environmental, employment, quality and health and safety issues.

All of the Directors have access to the advice and services of the Group's legal counsel.

DIRECTORS' REMUNERATION

The Board recognises that Directors' remuneration is of legitimate concern to shareholders. The company operates within a competitive environment where performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on Directors' remuneration

The remuneration policy is determined by a number of factors including individual performance, the need to attract, motivate and retain Directors and remuneration levels in comparative companies.

Remuneration

The total amount of directors' remuneration is set out in note 9 below. These include basic salary, where appropriate bonus and performance awards made under the Long Term Incentive Plan of the parent company.

KEYSTONE LAW LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEYSTONE LAW LIMITED

Opinion

We have audited the financial statements of Keystone Law Limited for the year ended 31 January 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, 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, 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 company's affairs as at 31 January 2022 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards; 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included reviewing forecasts for at least 12 months post the expected date of approval of the financial statements and reviewed the assumptions for reasonableness. These forecasts show that the business is expected to continue operating for a period of at least 12 months post expected date of approval of the financial statements with no requirements for third party funding. We considered sensitivities of the forecast produced to show the outcome of reasonably foreseeable reduced in activities and a model to show how long the business would be able to continue with no further revenue generation. In addition, we reviewed the disclosures included in the financial statements in relation to going concern and the appropriateness of the basis of preparation of the financial statements chosen by management. We have no key observations to report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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 company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13, 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 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 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.

KEYSTONE LAW LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEYSTONE LAW LIMITED (CONTINUED)

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 audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the company operates in and how the company are complying with the legal and regulatory frameworks;
- 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, including review of relevant correspondence and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud, having obtained an understanding of the effectiveness of the control environment.

As a result of these procedures we consider the most significant laws and regulations that have a direct and indirect impact on the financial statements are:

Legislation / Regulation	Additional audit procedures performed by the 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	Discussions with the compliance officer about how the company is following guidance.
Regulatory Compliance	Discussions with the compliance officer as to whether all required communications with The Solicitors Regulatory Authority (SRA) have been made. The company undergoes a separate SRA audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEYSTONE LAW LIMITED (CONTINUED)

The audit engagement team identified the risk of management override of controls and revenue recognition including accrued income as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business. The procedures also included 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 during the year as well as challenging judgments and estimates applied in accrued income calculation.

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.

RSM UK Audit LLP

Colin Roberts (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

8 June 2022

KEYSTONE LAW LIMITED
STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 January 2022

		2022 £	2021 £
Revenue	4	69,615,770	55,027,227
Cost of sales		(51,216,643)	(40,770,513)
Gross profit		18,399,127	14,256,714
Administrative expenses	5	(9,605,953)	(8,438,590)
Other operating income		6,335	11,285
Operating profit	6	8,799,509	5,829,409
Finance income	7	7,511	39,515
Finance costs	7	(95,395)	(113,117)
Profit before tax		8,711,625	5,755,807
Corporation tax expense	11	(1,783,744)	(1,146,271)
Profit and total comprehensive income for the year attributable to owners of the Parent		6,927,881	4,609,536

The above results were derived from continuing operations.

KEYSTONE LAW LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 January 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Property, plant and equipment			
Owned assets	12	247,550	323,940
Right of use assets	12	924,437	1,335,297
Total property, plant and equipment		1,171,987	1,659,237
Other assets	14	13,628	13,628
		1,185,615	1,672,865
Current assets			
Trade and other receivables	15	19,956,733	18,094,719
Cash and cash equivalents		10,482,676	7,371,300
		30,439,409	25,466,019
Total assets		31,625,024	27,138,884
Equity and liabilities			
Equity			
Share capital	16	105	105
Share based payments reserve		749,958	380,162
Retained earnings		3,199,089	2,921,208
Equity attributable to equity holders		3,949,152	3,301,475
Non-current liabilities			
Lease liabilities	21	571,730	1,015,924
Deferred tax liabilities	17	12,555	6,588
Provisions	19	107,945	101,429
		692,230	1,123,941
Current liabilities			
Trade and other payables	20	25,492,692	21,455,316
Lease liabilities	21	538,544	538,544
Corporation tax liability		952,406	719,608
		26,983,642	22,713,468
Total liabilities		27,675,872	23,837,409
Total equity and liabilities		31,625,024	27,138,884

The financial statements on pages 19 to 40 were approved and authorised for issue by the Board of Directors on 8 June 2022 and were signed on its behalf by:

A Miller

Director

Keystone Law Limited

KEYSTONE LAW LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 January 2022

	Note	Share capital	Share based payments reserve	Retained earnings	Total
		£	£	£	£
At 1 February 2020	16	105	171,491	3,061,672	3,233,268
Profit for the year and total comprehensive income		-	-	4,609,536	4,609,536
Share based payment		-	208,671	-	208,672
Dividend paid		-	-	(4,750,000)	(4,750,000)
At 31 January 2021	16	105	380,162	2,921,208	3,301,475
Profit for the year and total comprehensive income		-	-	6,927,881	6,927,881
Share based payments		-	369,796	-	369,796
Dividend paid		-	-	(6,650,000)	(6,650,000)
At 31 January 2022	16	105	749,958	3,199,089	3,949,152

KEYSTONE LAW LTD
STATEMENT OF CASH FLOWS
Year ended 31 January 2022

	Note	2022 £	2021 £
Cash flows from operating activities			
Profit before tax		8,711,625	5,755,807
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	527,107	523,226
Share based payments		369,796	208,671
Finance income	7	(7,511)	(39,515)
Finance costs	7	95,395	113,117
		9,696,412	6,561,306
Working capital adjustments			
(Increase) in trade and other receivables		(1,862,013)	(1,564,558)
Increase in trade and other payables		4,037,374	4,235,689
Increase in provisions		6,516	38,962
Cash generated from operations		11,878,289	9,271,399
Interest paid		(104)	(17,826)
Interest portion of lease liability		(95,291)	(95,291)
Corporation taxes paid		(1,545,915)	(968,555)
Cash generated from operating activities		10,236,979	8,189,727
Cash flows from investing activities			
Interest received		7,511	39,515
Purchases of property plant and equipment		(39,857)	(51,306)
Net cash used in investing activities		(32,346)	(11,791)
Cash flows from financing activities			
Repayment of lease liabilities		(443,257)	(443,222)
Dividend paid		(6,650,000)	(4,750,000)
Net cash used in financing activities		(7,093,257)	(5,193,222)
Net increase in cash and cash equivalents		3,111,376	2,984,714
Cash at 1 February		7,371,300	4,386,586
Cash at 31 January		10,482,676	7,371,300

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company (registration no. 04650763) is a private limited company which was incorporated and is domiciled in England and Wales. The principal activity of the Company 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 Company.

2. Accounting policies

Statement of compliance

The Financial Statements have been prepared in accordance with 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 Company's accounting policies.

Going concern

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

Accounting Developments

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

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions. Extension of the practical expedient (effective for annual period on or 1 April 2021)
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities (effective date deferred until accounting periods starting not earlier than 1 January 2024)
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective for annual periods beginning on or after 1 January 2023.
- Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction (effective for annual periods beginning on or after 1 January 2023)

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

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions. The executive directors are of the opinion that the Company 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 WIP valuation policy which is set out in note 3.

Operating Profit

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

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.

Share Based Payments

The cost of providing share-based payments to employees is charged to the profit or loss over the vesting period of the related awards. The cost is based on the fair value of the awards 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.

Taxation

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

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company 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 Company. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probably that sufficient taxable profits will be available to enable its recovery.

Tangible assets

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are stated at historical cost less provision for any impairment in value.

Financial instruments

The Company 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 Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at fair value. Financial instruments cease to be recognised at the date when the Company ceases to be party to the contractual provisions of the instrument.

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 and is held at cost which the Directors believe to 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.

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 carrying value. A provision for the impairment of trade receivables is made to reflect the difference between the carrying value and the present value of the expected proceeds of the asset.

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 effect the likely recoverability of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses").

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

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. Where a provision is made in respect of a professional negligence claim which are 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.

Leases

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

Initial Measurement of the Lease Liability

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

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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 £102,224 (2021: £86,512), This in turn would result in a change in the associated cost of sale of £76,668 and an impact to profit of £25,556 (2021: £21,628).

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 £77,443 (2021: £75,190). This in turn would result in a change in the associated cost of sale of £38,626 and an impact to profit of £38,817 (2021: £19,361).

4. Revenue

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

	2022 £	2021 £
Rendering of services	**69,351,075**	54,797,081
Other revenue	**264,695**	230,146
	69,615,770	55,027,227

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 the years ended 31 January 2022 or 2021.

5. Expenses by nature

Expenses are comprised of:

	2022 £	2021 £
Depreciation	**116,247**	112,366
Amortisation – right of use asset	**410,860**	410,860
Share based payments	**369,796**	208,671
Staff costs	**4,502,652**	3,790,848
Other administrative expenses	**4,817,004**	4,417,246
	10,216,559	8,939,991

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (2022: £610,606, 2021: £501,401).

6. Operating profit

Operating profit is arrived at after charging:

	2022 £	2021 £
Depreciation expense	**116,247**	112,366
Fees to auditors : audit fee	**70,000**	60,000

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Finance income and costs

	2022 £	2021 £
Finance income		
Interest income on bank deposits	7,511	39,515
Finance costs		
Interest on client monies held	(104)	(17,826)
Interest on leases for own use	(95,291)	(95,291)
Total Finance Charge	(95,395)	(113,117)
Net finance costs	(87,884)	(73,602)

8. Staff costs

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

	2022 £	2021 £
Wages and salaries	3,712,410	3,307,043
Social security costs	642,722	360,521
Pension costs, defined contribution scheme	147,520	123,284
	4,502,652	3,790,848

Included within the social security costs above is an amount of £235,702 (2021: £Nil) in respect of employers national insurance contributions which will be payable in respect of shares granted under the Group's LTIP scheme. The first of these awards is due to vest in July 2023 and no cost had been accrued previously due to the uncertainty and lack of materiality of any such liability.

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

	2022 £	2021 £
Fee Earners	10	9
Administration and support	53	47
Total	63	56

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Directors' and key management personnel remuneration

The directors' remuneration for the year was as follows:

	2022	2021
	£	£
Remuneration for qualifying services	**1,236,025**	1,223,627
Company pension contributions to defined contribution schemes	**52,943**	53,650
	1,288,968	1,277,277

In respect of the highest paid director:	2022 £	2022 £
Remuneration for qualifying services	327,301	319,300
Company pension contributions to defined contribution schemes	2,800	5,200
	330,101	324,500

The number of directors for whom retirement benefits are accruing under defined contribution schemes is 6 (2021: 6). The Directors are considered to be the only key management personnel. Employers NIC paid on Directors' remuneration in the year was £76,518 (2021: £74,524). The cost of share based payments charged to the Statement of Comprehensive Income which related to key management personnel was £309,342 (2021: £190,552).

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 are 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 10 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 10 years preceding the date of issue
- No individual may receive awards in any single year with a value greater than 100% of that individuals base salary
- Awards are personal and non transferable
- Grants shall be subject to a 3 year vesting period
- Following vesting, shares are subject to a further 2 year holding period (save for allowing shares to be sold to pay the tax liability arising on the Vesting of the Award
- 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 periods for these awards is now four years and the holding period post vesting is now one year. The target EPS at the end of the vesting period remains the same as the original targets.

The Company has the following number of performance shares granted under Awards during the year. No awards had been exercised at 31 January 2022.

	2022	2021
Outstanding at 1 February	**279,148**	161,193
Granted	**131,250**	117,955
Outstanding at 31 January	**410,398**	279,148

The following table shows Share awards held by Directors:

	2022	2021
Outstanding at 1 February	**254,416**	151,611
Granted	**97,655**	102,805
Outstanding at 31 January	**352,071**	254,416

The weighted average remaining contractual life of the performance shares was 1.5 years at 31 January 2022.

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (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 key assumptions used in the calculation of the fair value of the share based payments are as follows:

Granted July 2018

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

Granted June 2019

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

Granted September 2020

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

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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%

11. Corporation tax

Tax charged/(credited) in the income statement

	2022 £	2021 £
Current taxation		
UK corporation tax	1,777,776	1,146,536
	1,777,776	1,146,536
Deferred taxation		
Arising from origination and reversal of temporary differences	5,967	-
Tax expense in the income statement	1,783,743	1,146,536

The actual tax charge is higher than the standard rate of corporation tax in the UK applied to the profit before tax 2022- 20.5% (2021 – 19.9%).

The differences are reconciled below:

	2022 £	2021 £
Profit before tax	8,711,625	5,755,807
Corporation tax at standard rate 19%, (2021: 19%)	1,655,208	1,093,603
(Decrease) arising from group relief tax reconciliation	-	-
Increase from effect of expenses not deductible in determining taxable profit	128,535	52,933
Total tax charge	1,783,743	1,146,536

12. Property, plant and equipment

	Right-of-use assets £	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	–	39,857	39,857
Disposals	–	(124,268)	(124,268)
At 31 January 2022	2,054,303	618,354	2,672,657
Depreciation / Amortisation			
At 31 January 2021	719,006	378,824	1,097,830
Charge for the year	410,860	116,247	527,107
Disposal	–	(124,268)	(124,268)
At 31 January 2022	1,129,866	370,803	1,500,669
Carrying amount			
At 31 January 2022	924,437	247,550	1,171,987
At 31 January 2021	1,335,297	323,940	1,659,237

13. 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	
			2022	**2021**
Keystone Law (Guernsey) Limited	Dormant	England and Wales	100%	100%

14. Other assets

	2022 £	2021 £
Non-current financial assets		
Other assets	**13,628**	13,628

Other assets represent the value of the Company's 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.

15. Trade and other receivables

	2022	2021
	£	£
Trade receivables	**12,266,858**	10,381,433
Provision for impairment of trade receivables	**(4,082,672)**	(2,976,731)
Net trade receivables	**8,184,186**	7,404,702
Accrued income	**8,680,475**	7,519,042
Prepayments	**1,823,118**	1,578,570
Other receivables	**1,268,954**	1,592,405
Total current trade and other receivables	**19,956,733**	18,094,719

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

The Company'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 categories of current receivables, there is no difference between the carrying value and the expected proceeds.

	2022 Gross £	2022 Provision £	2022 Expected Loss Rate %	2021 Gross £	2021 Provision £	2021 Expected Loss Rate %
0 to 30 days	**4,683,433**	**10,258**	**0.2**	3,438,200	–	0.0
31 to 60 days	**1,585,671**	**59,002**	**3.7**	1,814,914	–	0.0
61 to 90 days	**1,059,987**	**37,349**	**3.5**	875,870	–	0.0
91 to 120 days	**659,660**	**199,882**	**30.3**	599,953	–	0.0
4 to 6 months	**430,269**	**39,543**	**9.2**	344,544	–	0.0
6 months to 1 year	**1,662,321**	**1,551,121**	**93.3**	1,297,737	966,516	74.5
Over 1 year	**2,185,517**	**2,185,517**	**100.0**	2,010,215	2,010,215	100.0
	12,266,858	**4,082,672**	**33.3**	10,381,433	2,976,731	28.7

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

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Allotted, called up and fully paid shares

	As at 31 January 2022		As at 31 January 2021	
	No.	£	No.	£
Ordinary shares of £0.01	10,527	105	10,527	105

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.

17. Deferred Tax

	2022	2021
	£	£
Accelerated capital allowances	**12,555**	6,588

18. Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £126,781 (2021 £108,437).

19. Provisions

	Dilapidations provision	Total
	£	£
At 31 January 2021	101,429	101,429
Charge for the year	6,516	6,516
At 31 January 2022	**107,945**	**107,945**

The dilapidation provision is in respect of leased premises in Chancery Lane. These leases expire in April 2024.

20. Trade and other payables

	2022	2021
	£	£
Trade payables	**7,484,190**	6,936,731
Accrued expenses	**8,273,249**	6,915,302
Amounts owed to Company undertakings	**9,385,481**	7,453,426
Social security and other taxes	**349,772**	149,857
Total trade and other payables	**25,492,692**	21,455,316

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Included within the above accrued expenses is the liability for lawyer fees associated with the accrued income (2022: £6,441,299; 2021: £5,585,486).

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

The Company'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 Company pays its trade payables on terms and as such trade payables are not yet due at the balance sheet dates.

21. 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.

	2022	2021
	£	£
Current lease liabilities		
Lease liabilities	**538,544**	538,544

	2022	2021
	£	£
Non-current lease liabilities		
Lease liabilities	**571,730**	1,015,924

The Company leases two floors of an office building for use in its operations. Lease terms are for 5 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 Company's lease arrangements is 5%. The carrying amounts of the lease obligations are all denominated in Pounds, with the fair value of the Company'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 £538,548 (2021: £538,548).

22. 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 £247,592 in the year ended 31 January 2022, and £53,004 in the year ended 31 January 2021. The balance outstanding at 31 January 2022 was £Nil (2021: £12,621).

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 £87,930 (2021: £104,700); to the Company and no amount was outstanding at the year end.

In note 20, the Company shows amounts owed to related parties of £9,385,481 (2021: £7,453,426). This relates to amounts owed to the parent, Keystone Law Group Plc, as this entity does not have a bank account Keystone Law Limited acts as the treasure function for the Group. The balances are unsecured, interest free and repayable on demand.

23. Financial instruments

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company'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 Company'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 Company, from which financial instrument risk arises, are as follows:

Financial assets
Other assets

	2022	2021
	£	£
Other assets	**13,628**	13,628
	13,628	13,628

Other assets are held at cost

Loans and receivables

	2022	2021
	£	£
Cash and cash equivalents	10,482,676	7,371,300
Trade and other receivables	18,133,615	16,516,150
	28,616,291	23,887,450

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 15 represent the only impairment gains or losses on financial instruments during the year.

KEYSTONE LAW LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial liabilities

	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**

	0 to 6 months £	7 to 12 months £	1 to 5 years £	Pay when paid £	Total £
Trade payables	328,054	433,703	–	6,174,975	**6,936,732**
Accrued expenses	795,266	565,000	–	5,585,486	**6,945,752**
Lease liabilities	269,272	269,272	1,246,385	–	**1,784,929**
At 31 January 2021	**1,392,592**	**1,267,975**	**1,246,385**	**11,760,461**	**15,667,413**

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

Amounts shown as pay when paid above principally reflect amounts payable in respect of lawyers' fees, as well as values payable to third party counsel and experts whose fees have been incurred on behalf of the Company's clients as disbursements. Lease liabilities are shown at their undiscounted value.

24. Financial risk management and impairment of financial assets

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company'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 Company's competitiveness and flexibility. *Further details regarding these policies are set out below:*

Credit risk and impairment

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

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

Liquidity risk

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

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 Company to finance the planned programmes.

Interest rate risk and fair value risk

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

Capital risk management

The Company considers its capital to comprise its ordinary share capital and retained profits as its equity capital. In managing its capital, the Company's primary objective is to provide return for its equity shareholders through capital growth and future dividend income. The Company's policy is to seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Company 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 Company considers not only its short-term position but also its long-term operational and strategic objectives.

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

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

Currency risk

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

25. Parent and ultimate parent undertaking

The company's immediate parent is Keystone Law Group Plc.

26. 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 base 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.