ANNUAL REPORT AND ACCOUNTS

for the year ended 31 January 2020

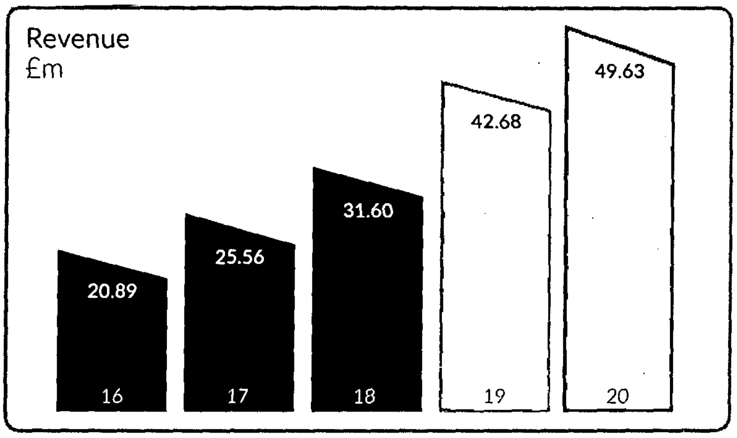
Company number 09038082

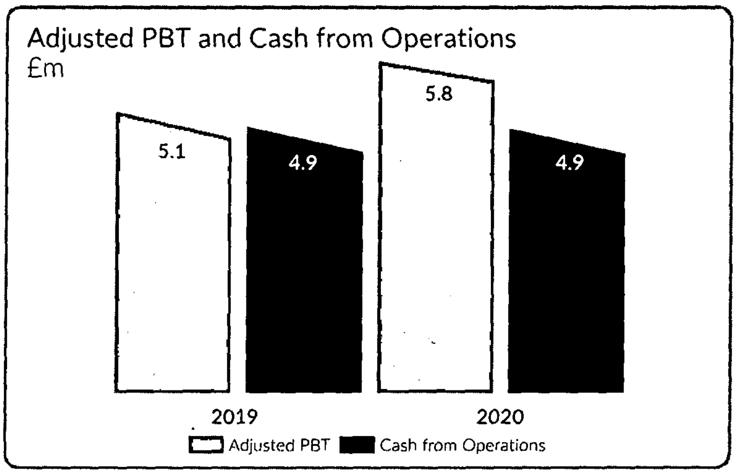
KEYSTONE LAW

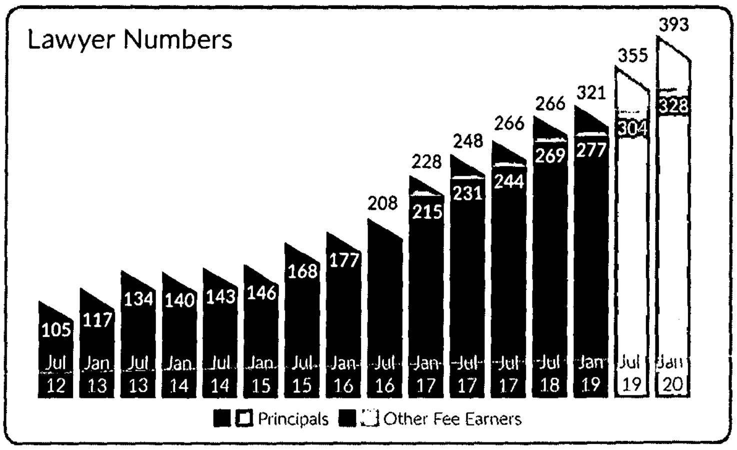
KEYSTONE LAW

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

Highlights







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CHAIRMAN'S STATEMENT

I am pleased to introduce Keystone Law's results for the year ended 31 January 2020.

This has been another strong year for the Group, with revenue increasing by 16.3% (23% if we adjust the prior year for the £2.2m one off impact from a large piece of litigation) to £49.6m (2019: £42.7m) and adjusted PBT* increasing by 12% to £5.8m (2019: £5.1m) (PBT increase of 10.1% to £5.2m from £4.7m), whilst adjusted PBT margin has increased from 11.0% (restated) to 11.6% (PBT margin 10.1% from 11.1%). The business has also continued to be strongly cash generative, with cash generated from operations of £4.9m (2019 (restated) £4.9m) representing an operating cash conversion of 82% (2019: 91%).

* Adjusted PBT for 2020 is calculated by adding share based payment costs, amortisation and one off costs associated with the property changes to PBT (2019: calculated by adding share based payment costs and amortisation back to PBT). Details of these calculations are shown in the Financial Review.

DIVIDEND

As we announced on 27 March 2020, in light of the current situation, the Board believes that it would be prudent to maximise cash reserves in the business and as such it does not intend to propose a final dividend at this time (2019: total ordinary dividend 9.0p (interim 2.5p)). We will resume dividend distributions when circumstances make it appropriate to do so.

BOARD AND GOVERNANCE

I am happy to report that in our second full year as a Plc Board, we have operated within the structures and governance requirements of a quoted business. We have operated in compliance with the Quoted Companies Alliance ("QCA") code as set out in the corporate governance section of this report and our Board effectiveness review has highlighted no adverse areas but has aided in further focusing our development of the risk management of the Board for the coming year.

OUR PEOPLE AND TECHNOLOGY

Keystone is, first and foremost, a people business but with technology at its core. Both our people and our technology are key to ensuring that the business continues to be successful, creating and maintaining a rewarding environment in which our people can flourish and enjoy delivering legal services of the highest calibre to their clients.

As such, we invest significant time and effort in maintaining a modern, open business culture, which rewards those who adopt it. The friendly and welcoming environment at Keystone with its complete absence of office politics ensures that our people are free to concentrate on doing what it is they love; delivering high calibre legal services to their clients, and by doing so developing the potential of their practices in the manner and to the extent they seek to do so.

As a modern agile business, we depend on our technology to facilitate the way in which our lawyers deliver their work. Because of this, we constantly invest in our technology platform to ensure that it continues to deliver the best in class service that our people want.

This year, as each year, we have continued to focus on these areas to ensure that we maintain that which has made Keystone successful to date.

OUTLOOK

Although the COVID-19 pandemic and the resultant impact to the broader economy presents a challenge to all businesses at this time, Keystone is, both financially and operationally, in a strong position. The business is highly liquid and has no debt and a large part of the cost base is fully variable and on a "paid when paid" basis. Operationally our model is developed to operate on a disbursed basis and so the restrictions on movement imposed by the government have not adversely affected our service delivery model. The business is well diversified, delivering a full range of legal services to a large number of customers across a range of industries with no significant dependency on any one of these.

The current situation is unprecedented and the wider economic impact on our clients, together with the timing of this within our financial year and unknown duration for which it may apply, mean that the impact on the Group for the year ending 31 January 2021 cannot yet be assessed. In the month since the pandemic broke in the UK, whilst billing and cash generation have remained strong, we have, rather unsurprisingly, seen a meaningful decline in the number of new instructions received. We have modelled a range of scenarios, including some which are significantly more negative than that which we currently believe to be the most likely outcome for the Group, and under all of these scenarios the business remains profitable and cash generative for this financial year. However, we will provide a further update once the full effects of the pandemic become clear.

We remain confident of the Group's ability to continue to deliver on its strategy for growth, taking advantage of the sizeable market opportunity which exists, once the current situation has passed.

Robin Williams
Non-executive Chairman
27 April 2020

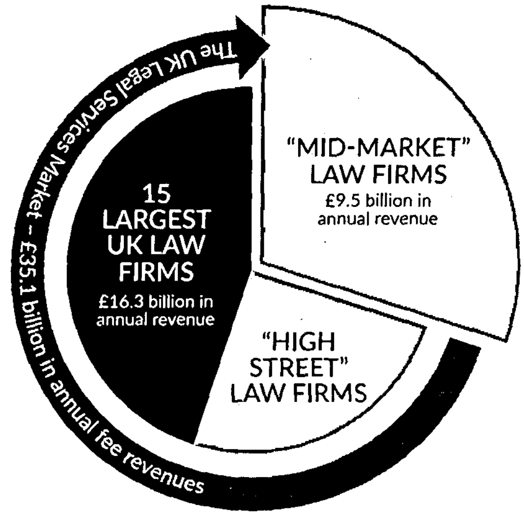
MARKET REVIEW

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 £35.1 billion in 2018 (up 6.3% 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 £9.5 billion annual fee income and employ approximately 50,000 fee earners (average revenue per fee earner of £188,000) (Source: The Lawyer Top 200, 2018). This is the segment of the market which Keystone operates within.

The "global elite" (the Magic Circle and Silver Circle firms and others that together make up the 15 largest UK firms by annual revenue): these firms focus on delivering complex legal services to the largest global businesses, generating in aggregate £16.3 billion annual fee income and employing over 41,500 fee earners, with an average revenue per fee earner of approximately £392,000 (Source: The Lawyer Top 200, 2018).

Increasing complexity

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

The UK market is diverse, comprising approximately 9,500 law firms in England & Wales in July 2018 (source: Law Society August 2019) and around 94,000 solicitors acting in private practice. Despite this, the Directors believe that the overall market can be broadly divided into the three segments shown above and that the Mid-Market is the segment in which Keystone operates.

THE MID-MARKET LAW FIRM MARKET

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

IMPACT ON TRADITIONAL LAW FIRMS

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

OPPORTUNITY FOR KEYSTONE LAW

These dynamics have resulted in a significant number of experienced but dissatisfied lawyers across the UK mid-market seeking alternative ways to practise law. It is possible that the changes on people's working patterns enforced by the COVID-19 pandemic may further increase the number 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 started to emerge and sought to replicate the Company's growth and performance through the operation of similar business models.

The Directors are currently aware of at least 20 other such firms (none of which was included in The Lawyer UK Top 200 2018 rankings), with approximately 800 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.

CHIEF EXECUTIVE'S REVIEW

Operational Review

INTRODUCTION AND HIGHLIGHTS

2020 has been another exciting year for Keystone. In spite of the uncertainty in the UK economy, caused predominantly by Brexit and the General Election, we have once again achieved strong results as the business has continued to grow and deliver on our strategy.

Revenue has grown 16%, this figure being lower than the underlying growth as last year's revenue benefited from £2.2m which was one off in nature (being a particularly substantial and unusual piece of litigation), excluding this the revenue growth would have been 23%. The strength of our balance sheet, together with our confidence in the future, were both reflected in the Board's decision to pay a special dividend in the year of 8 pence per share (£2.5m).

From an operational perspective, against a challenging background, especially in the third quarter, we have had another good year in recruitment with the number of Principals* growing from 277 to 328. Furthermore, as the Pod concept continues to demonstrate its appeal and flexibility, we have seen the number of Pod members increase from 33 to 54 and ongoing demand for junior support through our central office employed lawyers has also remained strong.

KEYSTONE'S STRATEGY AND DELIVERY AGAINST IT

Our strategy, as previously communicated, is clear and simple; organic growth through recruiting high calibre lawyers in the UK legal services market. In the twelve months ended 31 January 2020, the market landscape remained essentially unchanged. Our market remains substantial, at over £9billion, and continues to suffer from the same structural problems which have been inherent to it for some time. As such, a large number of lawyers are seeking a different way to continue to develop their practice.

Accordingly, we have remained constant in our efforts to take advantage of this opportunity. Our focus has remained on driving growth through recruitment and delivering "best in class" service to our lawyers once on board, thereby enabling them fully to exploit the potential of their practices. The year started well, with first half qualified new applicant numbers being 7.5% higher than the same period of the prior year (114 v 106). However, the uncertainty in the broader UK economy triggered by concerns over Brexit and subsequently the General Election caused a temporary slow-down in the third quarter, and whilst we saw a bounce back in the final quarter, overall qualified new applicants ended the year just 4% up at 239 (2019: 230). This slow down had more of an effect in the number of accepted offers in the year, which ended the first half of the year 24% up (36 v 29) but only reached 56 for the full year (2019: 63), as the bounce back in qualified new applicants in Q4 did not have time to feed through to accepted offers by the year end. The COVID-19 pandemic has subsequently impacted on market conditions in Q1 2020.

* 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 company 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. Such juniors/colleagues are employed by or contract with the Principal lawyer's service company but are, to all other intents and purposes, a Keystone lawyer. As such, they are fully vetted by the Central Office to ensure that the quality of the services received by the clients remains of the highest 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 Keystone's lawyers' professional conduct. This development further demonstrates the flexible and scalable nature of our model; the Principal lawyers are able to scale their practice and benefit from the additional fees that their service companies receive, whilst Keystone benefits from the increasing size of the practices which these lawyers are able to build.

This year, we have continued to witness how the full potential of the model has yet to be reached. In 2019 we started to see lawyers adopting the flexibility of the model to build Pods, enabling them to increase the size of the practice they were able to develop. This year we have seen the continued evolution of this theme, with 35 new Pod members being recruited by our Principals* (2019: 26). Of these, 13 were recruited by Principals who themselves joined during the year, 9 were recruited by existing Principals who have taken on their first Pod member with the rest joining an existing Pod. The establishment and proliferation of these Pods has not only provided a means by which new and existing lawyers are able to develop larger practices, but also further enhances and extends the appeal of the Keystone model in the market place as a whole.

As we continue to attract more high calibre lawyers, so the overall strength of the Keystone brand continues to grow and our position in the market increases. This is all part of a virtuous circle as the best lawyers want to work where other good lawyers work.

INVESTMENT IN CHANCERY LANE OFFICES

Our main office at Chancery Lane serves as both where the central office team work and, probably more importantly, the "face of the firm". This is the principal location where lawyers wishing to meet with their clients at Keystone offices do so. At the start of the 2020 financial year, we occupied the first floor in Chancery Lane for both client meeting rooms and the central office as well as a small premises near the main offices which provided hot desking facilities to our lawyers whilst they were in London as well as enabling a small number to rent space from us on a commercial basis ("the lawyer centre").

Keystone's growth in recent years had seen an increasing pressure on the availability of meeting rooms; this was further highlighted through the responses to our annual lawyer survey which identified this as an area which could be improved upon. Furthermore, the lease on the lawyer centre only ran until December 2019.

We were, therefore, very happy to be able to take advantage of the opportunity which presented itself to co-locate both our lawyer centre, client meeting rooms and central office in the one building by taking a second floor in Chancery Lane. At the same time we were also able to align the old lease with the new lease such that we now hold two conterminous five year leases. Furthermore, taking the new floor not only increased the number of meeting rooms available (more than doubling it) to our lawyers but presented the opportunity to fit out the offices to a higher spec than the existing floor, thereby realigning the "face of the firm" with the current and future positioning of Keystone in the market place.

Although we took the new leases from the end of Q1, the new floor became available for use from the start of the second half of the year and has been exceedingly well received by both lawyers and clients.

ONGOING INVESTMENT IN IT

For Keystone, IT is a key enabler of the model and so we work tirelessly to deliver ongoing improvements and enhancements across the IT estate to ensure that our offering remains "best in class" and a clear differentiator. This year has been another busy year for the IT team, delivering the ongoing enhancements needed to ensure that the systems provide the best user experience, driving operational efficiency and ensuring continued compliance to the constantly developing rules and regulations under which a law firm operates.

Over and above the day to day enhancements and developments, we have also rolled out a number of projects which this year have again focused on improving the security of our IT estate. We successfully migrated all users from Exchange on site (albeit on site at our outsourced provider Naastar) to Exchange on-line. The most significant advantage of this change is that all data is now encrypted at rest (i.e: the point at which the email leaves the local machine). As part of this roll out, and to further enhance security of the local devices, we also introduced multi-factor authentication for all users' machines. Finally, in a separate project focusing on mobile devices, we rolled out a product which ensures that any device with access to Keystone emails has an up to date operating system with all the patches up to date, is password encrypted and satisfies a determined level of security criteria. The product also has the additional advantage of enabling the central office team to delete all Keystone data from the app should the mobile device be lost or stolen.

CHIEF EXECUTIVE'S REVIEW

Operational Review

ONGOING INVESTMENT IN THE CENTRAL OFFICE TEAM

Whilst the key driver of growth in the business is recruitment of lawyers and their clients, the role of the Central office team is equally key to the growth and development of the business. The work done in delivering services of the highest quality to our lawyers by all areas of the Central office team is a fundamental aspect of what makes Keystone so special. Within the business we believe that we have two groups of clients; those to whom we deliver legal services and the lawyers themselves. This customer services approach: treating our lawyers as clients, is an aspect of the model which is often overlooked but which goes to the heart of the business' culture, significantly enhancing Keystone's offering. As such, the ongoing investment in and evolution of the Central office team is essential if we are to continue to meet and exceed the expectations of our lawyers and their clients. This is a continual process of improvement and something that we are mindful of with each new hire and/or promotion. I would like to take this opportunity to thank all those involved in the Central office for the excellent attitude that they have brought to their work over the course of the last year and look forward to continuing on this journey of excellence with them in the year ahead.

LOOKING AHEAD

Once again, during 2020, Keystone's business model has continued to flourish and evolve, extending its appeal to an ever wider audience within the legal community. It has continued to demonstrate its ability to attract and retain high quality lawyers, working with them to develop and exploit their practices to maximum effect.

The current year started well with trading for the first six weeks being strong and in line with our expectations. Whilst we, like most businesses around the world, have been impacted by the effects of the COVID-19 pandemic and the resultant impact on the broader economy, Keystone is in a strong position to deal with both the operational and financial impacts.

Keystone is highly liquid, being debt free and with a net cash position of £4.4 million as at 31 January 2020. Furthermore, the Group has been cash generative in the period since year end. The Keystone model itself is highly resilient to economic volatility due to the "capital light" nature of the business and the high proportion of its cost base which is fully variable; most notably the lawyer fees which represent approximately 75% of revenue. These are not only fully variable but also on a paid when paid basis, thus underpinning the cash-generative nature of the Keystone model.

Operationally, Keystone's service delivery model, whereby lawyers operate on a remote basis accessing central services through its bespoke technology platform, has been substantially unaffected by the restrictions on movement implemented by the UK Government. In the interests of staff wellbeing the Board acted quickly to move all office-based support staff to remote working with effect from 13 March 2020. This change was achieved with no impact to the business and Keystone's service delivery capability is as robust as it was before the COVID-19 outbreak. We are well diversified, delivering legal services across a wide range of sectors and specialisms such that we have no dependency on any single area of the economy or client.

The current situation is unprecedented and the wider economic impact on our clients, together with the timing of this within our financial year and unknown duration for which it may apply, mean that the impact on the Group for the year ending 31 January 2021 cannot yet be assessed. In the month since the pandemic broke in the UK, whilst billing and cash generation have remained strong, we have seen a meaningful decline in the number of new instructions received. We have modelled a range of scenarios, including some which are more negative than what we currently consider the most likely outcome for the Group, and under all of these scenarios the business remains profitable and cash generative for this financial year. However, we will provide a further update once the full effects of the pandemic become clear.

As a Board we are monitoring the situation closely and will take all necessary actions to ensure the good health of the business through these challenging times. We remain confident of the Group's ability to continue to deliver on its strategy for growth, taking advantage of the sizeable market opportunity which exists, once the current situation has passed.

James Knight

James Knight
Chief Executive
27 April 2020

FINANCIAL REVIEW AND STRATEGIC REPORT

KEY PERFORMANCE INDICATORS (KPIs)

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

Revenue growth: 16.3% increase (2019: 35.1%)

Adjusted PBT growth: 12.0% increase (2019: 56.8%)

Adjusted PBT margin: 11.6% (2019 (restated for one off litigation: 11.0%)

PBT growth: 10.1% increase (2019: 145.5%)

PBT margin: 10.5% (2019: 11.1%)

Operating cash conversion %: 81% (2019: 92%)

Trade debtor days: 36 (2019: 40)

Net Assets: £14.1m (2019: £15.4m)

The calculation of adjusted PBT is shown below.

INCOME STATEMENT

I am pleased to report revenue for the year of £49.6m, an increase of 16.3% on the prior year. This growth rate is somewhat downplayed by the fact that last year's revenue had benefited from £2.2m litigation revenue which was one off in nature (this case was one-off in nature predominantly due to the source of work; being a conflict case from a magic circle firm); excluding the distortion caused by this revenue growth would have been c.23%. Revenue growth has been driven by the lawyers recruited last year contributing a full year of productivity as well as contributions from the lawyers who have been recruited during this year, with principal lawyer numbers increasing from 277 to 328.

GROSS PROFIT

The gross profit margin of the business has fallen slightly this year to 26.7%% (2019: 27.1%). The majority of this decline is again due to the impact of the one off litigation work last year which generated an enhanced gross profit margin (32.4%) due to the level of fees billed by central office employed lawyers on the case. Excluding the one off litigation case last year, the gross profit margin would have been 26.8% and gross profit year on year would have been broadly flat.

ADMINISTRATIVE EXPENSES

Administrative expenses have increased by 14.3% to £7.2m (2019: £6.3m). The largest single component of this is staff costs which increased by 16.7% to £2.9m (2019: £2.5m), with support staff increasing from an average of 37 in 2019 to 44 in 2020. Other administrative costs increased by 12.9% to £4.4m (2019: £3.9m). These increases compare to the 23% increase in underlying revenue (ie: excluding one off litigation revenue from 2019) and continue to demonstrate the operational gearing effect within the business.

OTHER COSTS

This year's application of IFRS16 has meant that the treatment of leases has changed such that the largest element of the cost is now treated as amortisation, whilst the element arising from discounting the liability is treated as interest. As such, in spite of the business not having any third party debt, we now have a reasonable charge for interest.

Amortisation costs in the business now comprise both the amortisation of the goodwill which arose from the structuring of Root Capital's investment in the business in October 2014, together with the amortisation of the discounted cost associated with our property leases. Last year, we held a lease for our lawyer centre in Staple Inn and our principal office on the first floor of 48 Chancery Lane. In April this year, we took a new lease of the second floor of Chancery Lane, and re-signed a new lease on the first floor so that both leases co-terminate in five years' time. The lease in Staple Inn came to an end during this year.

FINANCIAL REVIEW AND STRATEGIC REPORT

PBT AND ADJUSTED PBT

Adjusted PBT is calculated as follow:

	2020 £	2019 (Adjusted) £
Profit before tax	**5,225,891**	4,745,011
Amortisation	**350,884**	350,884
Share based payments	**128,286**	43,205
One off impact of property changes	**51,547**	-
Adjusted PBT	**5,756,608**	5,139,100
One off litigation case	**-**	(698,161)
Adjusted PBT (excluding effect of one off litigation)	**5,756,608**	4,440,939

PBT has increased by 10.1% to £5.2m and adjusted PBT has increased by 12.0% to £5.8m (these increases would have been 29.1% and 29.6% respectively had 2019 not benefited from the one off piece of litigation). The effect of the one off litigation also impacted on the 2019 PBT and adjusted PBT margins which were 11.1% and 12.0% respectively but which otherwise would have been 10.0% and 11.0%. As such, although both the PBT and adjusted PBT margin declined this year, this was due to 2019 margin being enhanced. If we exclude the impact of the one off litigation from 2019 both the PBT and the adjusted margins for this year would have shown an increase reflecting the continued effect of operational gearing in the business.

TAXATION

The effective tax rate of 20.3% is higher than the standard rate and that of the prior year (19.8%). 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.

EARNINGS PER SHARE

Basic earnings per share has increased from 12.2p to 13.3p, with the dilution effect from shares granted under LTIP being negligible. Adjusted earnings per share (calculated by making the same adjustments to earnings as has been made in calculating adjusted PBT and divided by the average shares in circulation this year) has increased by 33.9% to 15.0p (2019: 11.2p).

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. As such, operating cash conversion for the year was 81% (2019: 92%) generating cash from operations of £4.9m (2019 (restated): £4.9m). This decrease in the operating cash conversion in the period, which equates to c.£0.5m, is due to an increase in the level of client disbursements which have been paid by the Group and not yet recovered from clients on ongoing matters. Capital expenditure was £0.4m (2019: £0.04m) reflecting the costs associated with fitting out the new floor of offices taken in Chancery Lane, corporation tax payments were £0.8m (2019: £0.9m), net interest received was £0.06m (2019: £0.06m) and lease payments were £0.15m (£2019: £0.27m); lower this year than last, in spite of the additional space taken, due to the rent free periods on both of the new leases signed. As such, cash generated by the business in the year was £3.6m (2019: £3.8m). The Group paid dividends of £5.5m (2019: £1.0m), which included ordinary dividends of £3.0m and a special dividend of £2.5m, the prior year had been much lower because it only reflected the previous interim and a small dividend in respect of the post admission period. This left closing cash of £4.4m (2019: £6.3m) and no debt.

NET ASSETS

Although the net assets of the Group have decreased from £15.4m to £14.1m, this is the result of the payment of a special dividend of £2.5m. This still leaves the business with a strong balance sheet.

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.

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.

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

The nature of the Group's business is fundamentally low impact to the environment. Furthermore, the Keystone model which enables lawyers to deliver their services using technology further reduces the environmental impact as our lawyers have no need to commute to work.

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

DIVIDEND

Due to the Covid-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board has decided that it would not be prudent to propose a final dividend at this time. As such, the total dividend for the period will be the amount paid as an interim dividend, that being 3.2p per share (2019: total ordinary dividend 9.0p (interim 2.5p)).

On behalf of the Board

Ashley Miller
Finance Director
27 April 2020

PRINCIPAL RISKS AND UNCERTAINTIES

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

	Risk	Mitigation
GLOBAL PANDEMIC AND SUBSEQUENT ECONOMIC DOWNTURN	A virus that causes material sickness levels in the population requiring national steps which significantly impact mobility of people and the national economy, creating uncertainty and potentially impacts on the Group's business.	The IT platform on which the Group operates is designed to support remote working 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	Due to the nature of a law firm and its role of providing legal advice, the Group remains susceptible to potential liability for negligence, breach of contract and other client claims. From time to time, in the ordinary course of business, Keystone receives claims of professional negligence which it notifies to its insurers. Any potential claim may be expensive to defend, divert the time and focus of management away from the Group's operations and may result in the Group having to pay substantial monetary amounts, any of which could impact on the reputation of the Group and result in a material adverse effect on Keystone's business and overall financial condition.	We have a robust compliance and risk management team which focuses on supporting lawyers to reduce the risk that such issues may arise and to the extent that they do arise we seek to mitigate any such risk by carrying professional indemnity insurance with a cap of £30 million.
REGULATORY RISK AND COMPLIANCE RISKS	The Group, like most businesses, is subject to a range of regulations. Failure to comply with these could have significant implications for the business ranging from reputational damage to criminal prosecution and sentencing.	The business has an experienced and robust compliance and risk management team which oversees the Group's policies and procedures ensuring that they meet the relevant regulatory requirements. The Group uses technology to support and drive compliant behaviour and to help the team to focus on areas of potential risk. Furthermore, the team calls upon external professional advice where needed to ensure that the business meets its compliance and regulatory obligations.
PERSONNEL	For any business, personnel is a particularly prominent asset heavily contributing to its strength and attractiveness. The Group is heavily reliant on its lawyers to attract new clients and also maintain relationships with existing clients. If the Group were to lose the services of key lawyers with high client retention rates, or cease to be able to attract new lawyers, this could significantly impair the strategy and success of the firm from both a reputational and financial standpoint.	The Group invests considerable time and effort in working to attract high quality new lawyers as well as focusing on ensuring that all lawyers feel a part of the Keystone "family". Furthermore, management continues to monitor the characteristics of the Keystone model to ensure that they remain commercially compelling and attractive to both existing and potential Keystone lawyers.

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

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, international opportunities and other drivers of growth.

ASHLEY MILLER
FINANCE DIRECTOR

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

NON-EXECUTIVE DIRECTORS

ROBIN WILLIAMS
INDEPENDENT NON-EXECUTIVE CHAIRMAN

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

PETER WHITING
SENIOR INDEPENDENT DIRECTOR

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

SIMON PHILIPS
NON-EXECUTIVE DIRECTOR

Simon joined the Keystone Board following the investment by Root Capital in October 2014 and was Chairman until October 2017. Since then he has been a Non-executive Director and Chair of the remuneration committee. He is an experienced entrepreneur in the software and outsourcing sectors and the managing partner of private equity firm Root Capital.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

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

KEYSTONE'S BUSINESS MODEL AND STRATEGY (PRINCIPLE 1)

KEYSTONE'S BUSINESS MODEL

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

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

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

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

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

THE GROUP'S STRATEGY

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

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

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

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

The Board 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 pages 12 and 13. The Board believes that the composition of the Board brings a desirable range of skills and experience in light of the Company's challenges and opportunities while at the same time ensuring that no individual (or a small group of individuals) can dominate the Board's decision making.

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

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

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

ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

MATTERS RESERVED FOR THE BOARD

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

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

CORPORATE GOVERNANCE STATEMENT

BOARD DECISIONS AND ACTIVITY DURING THE YEAR

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

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

BOARD MEETINGS

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

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

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

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

	Board	Audit	Remuneration
James Knight	11/11		
Ashley Miller	11/11	2/2	
Robin Williams	11/11	2/2	2/2
Peter Whiting	11/11	2/2	2/2
Simon Philips	10/11	2/2	2/2

DISCLOSURE COMMITTEE

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

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

NOMINATION COMMITTEE

The Group does not have a separate nomination committee (this is a departure from the QCA recommendations). Given the size of the Board and the Company, the Board does not believe that such a committee is necessary and has decided that the full Board will carry out the functions which such a committee would normally fulfil.

BOARD EFFECTIVENESS (PRINCIPLE 7)

During the year, the Group has carried out its first Board effectiveness review. This was an internal review led by the Chairman. The Chairman prepared and circulated a series of questionnaires covering the effectiveness of the Board as a whole, the NEDs and the Chairman. These were completed by each Director and returned (in the case of the first two) to the Chairman and (in the case of the latter) to the Senior Independent Director. A summary of the responses was compiled, so as to remain anonymous, and then the outcome was discussed by the Board as a whole.

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

RISK MANAGEMENT AND INTERNAL CONTROLS (PRINCIPLE 4)

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

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

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

As a law firm, Keystone is regulated by the Solicitors Regulatory Authority ("SRA") as well as being subject to other legal regulation governing its industry and the economy as a whole (e.g. anti money laundering legislation, data protection rules (GDPR) etc.). As such, the Group has a dedicated compliance department, led by the Group's Compliance Officer and staffed by employed qualified solicitors, whose role it is to ensure compliance with all such regulation as well as handling any complaints or claims received from the Group's clients. The structure of Keystone ensures that this department is wholly independent of the consultant 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 pages 12 and 13). These processes and controls are reviewed as part of the Group's audit on an annual basis, this includes a specific SRA audit to ensure compliance with the SRA's rules on client money, and the Group's auditors meet with the Audit Committee of the Board on a bi-annual basis without the presence of the Finance Director.

CORPORATE CULTURE (PRINCIPLE 8)

One fundamental aspect of the success of Keystone is the culture of the Group. For the lawyers, the flat structure, transparent and consistent remuneration policy and absence of politics creates an extremely positive, open and encouraging environment in which they can thrive in driving forward their practices. Within the central office team we engender a positive client focused culture; this extends beyond the clients of the law firm to include the lawyers themselves, whom we treat as if they were clients. By engendering this supportive culture with our lawyers we ensure that they are free to focus on client development and delivering legal services which are wholly consistent

CORPORATE GOVERNANCE STATEMENT

with the Group strategy. As a business, we run regular social and networking events for our lawyers; this provides ample opportunities throughout the year to assess and monitor the state of the culture amongst our lawyers. Furthermore, the executive members of the Board work closely with the rest of central office team, thus guiding and enhancing the positive behaviours and attitudes which underpin the corporate culture.

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

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

UNDERSTANDING AND MEETING SHAREHOLDER NEEDS AND EXPECTATIONS (PRINCIPLE 2)

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

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

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

WIDER STAKEHOLDER ENGAGEMENT AND SOCIAL RESPONSIBILITIES (PRINCIPLE 3)

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

CONSULTANTS AND EMPLOYEES

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

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

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

CLIENTS

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

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

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

SUPPLIERS

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

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

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

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

REPORT OF THE AUDIT COMMITTEE

OVERVIEW

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

The Audit Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditors. The Audit Committee in its meetings with the external auditors reviews the safeguards and procedures developed by the auditors to counter threats or perceived threats to their objectivity and independence and assess 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, two of whom are independent Non-executive Directors with one having recent and relevant financial experience with competence in accounting or auditing. The Finance Director attends the committee meetings by invitation.

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

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

INTERNAL FINANCIAL CONTROLS AND RISK MANAGEMENT FRAMEWORK

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

FINANCIAL MANAGEMENT AND REPORTING

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

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

INTERNAL AUDIT FUNCTION

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

EXTERNAL AUDIT

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

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

Peter Whiting
Chairman, Audit Committee

REPORT OF THE REMUNERATION COMMITTEE

OVERVIEW

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

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

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

COMPOSITION AND MEETINGS

The members of the Remuneration Committee are:

Simon Philips (Chairman)
Peter Whiting
Robin Williams

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

DIRECTORS' REMUNERATION SUMMARY (AUDITED)

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

£'000	Salary & Fees	Pension Contributions	**Total 2020**	Total 2019
James Knight	310	12	**322**	315
Ashley Miller	165	8	**173**	147
Simon Philips	44	-	**44**	50
Robin Williams	62	-	**62**	60
Peter Whiting	40	-	**40**	35
	621	20	**641**	607

KEY ACTIVITIES

During the year the Committee:

- Considered which members of the senior management team should be qualifying individuals under the LTIP.
- Reviewed share allocation to qualifying individuals under the LTIP.
- Reviewed remuneration arrangements for the Executive Directors and senior management team.

REPORT OF THE REMUNERATION COMMITTEE

LONG TERM INCENTIVE PLAN

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

- The Remuneration Committee was authorised to grant performance share awards or nil-cost options to qualifying employees.
- Awards will be made subject to appropriate performance criteria.
- Any award made will be subject to a three year vesting period followed by a two year holding period, during which time employees may not sell the shares except insofar as necessary to pay for the tax arising from the grant.
- No single grant may have a value greater than 100% of the base salary of the individual to whom the grant is made.
- 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 2019, performance share awards were issued to members of the senior management and Executive team. As per the terms of the scheme, these awards were subject to performance criteria, with 70% being linked to EPS growth and 30% linked to comparative total shareholder return with both elements being measured over a three year period. The Remuneration Committee considers that the targets are appropriate and are aligned with shareholder interests.

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

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

The following table shows Share Awards held by Directors:

	31 January 2019	Granted	**31 January 2020**
A Miller	20,820	13,415	**34,235**
Total	20,820	13,415	**34,235**

DIRECTORS' INTERESTS

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

	No. of Shares
James Knight	10,682,127
Ashley Miller	247,672
Simon Philips*	1,050,000
Robin Williams	12,500
Peter Whiting	21,875

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

Simon Philips
Chairman, Remuneration Committee

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the financial statements of the Group for the year ended 31 January 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 30. Due to the Covid-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board has decided that it would not be prudent to propose a final dividend at this time.

LIKELY FUTURE DEVELOPMENT

Our priorities for the following financial year are disclosed in the CEO's Review on pages 4 to 6.

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 31 March 2020 were as shown in the table below:

	No. of Shares	% Holding
James Knight	10,682,127	34.2
Canaccord Genuity Wealth Management	4,332,279	13.9
William Robins	1,563,698	5.0
Merian Global Investors (UK) Limited	1,509,710	4.82
Stancroft Trust	1,450,000	4.64
Kames Capital Plc	1,334,150	4.27
Unicorn Asset Management	1,280,549	4.09
SVM Asset Management	1,059,000	3.39
Root Capital Fund II LP	1,050,000	3.36

DIRECTORS AND THEIR INTEREST

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

James Knight

Ashley Miller

Robin Williams

Peter Whiting

Simon Philips

AUDITED DIRECTORS' REMUNERATION

Directors' remuneration payable in the year ended 31 January 2020 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.

DIRECTORS' 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. In the month since the COVID-19 pandemic broke in the UK, whilst billing and cash generation have remained strong, the Group has seen a meaningful decline in the number of new instructions received. Accepting that the pandemic is still at an early stage and that the wider economic effect on the Group's clients and business, together with the unknown duration for which it may apply makes it impossible to assess the impact on the Group and Company with any certainty, we have modelled a range of scenarios, including some which are significantly more negative than that which are currently believed to be the most likely outcome for the Group. Under all of the scenarios currently modelled the business remains profitable and cash generative for the financial year ending 31 January 2021.

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 27 to the consolidated financial statements.

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

POST BALANCE SHEET EVENTS

In March 2020, the COVID-19 pandemic broke in the UK. This event has not impacted on the Group's financial performance for the year ended 31 January 2020 nor on its financial position as at 31 January 2020.

ANNUAL GENERAL MEETING

The Company's AGM will be held on 30 June 2020.

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
27 April 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRS as adopted by the EU, 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 Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC

OPINION

We have audited the financial statements of Keystone Law Group Plc (the "parent Company") and its subsidiary (the "Group") for the year ended 31 January 2020 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 a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and 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.

EMPHASIS OF MATTER - UNCERTAINTY RELATED TO COVID-19

We draw attention to notes 2 and 30 of the financial statements which describe the growing impact of COVID-19 on the wider economy, the Group's clients and its general business activities. Whilst this event has not impacted on the Group's financial performance for the year ended 31 January 2020 nor on its financial position as at 31 January 2020, the full timing and extent of the impact and recovery from COVID-19 is uncertain and it will have an impact on the Group's future activities. The ultimate outcome of the matter cannot presently be determined, however, the financial statements at 31 January 2020 have not required adjustment for the post year-end effects of COVID-19. Our opinion is not modified in respect of this matter.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	**Group** • Revenue recognition and accrued income
Materiality	**Group** • Overall materiality: £287,000 • Performance materiality: £215,000 **Parent Company** • Overall materiality: £145,000 • Performance materiality: £108,000
Scope	Our audit procedures covered 100% of the group's results

KEY AUDIT MATTERS

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

REVENUE RECOGNITION AND ACCRUED INCOME

Key audit matter description	Revenue is the most significant component of the financial statements and there is a risk that this could be materially misstated due to recognising revenue in the incorrect accounting period. Additionally, revenue is impacted by changes in the accrued income balance which is subject to judgemental decisions by management. The Group has recognised revenue of £49.4m in respect of lawyer fees billed and accrued in the year and revenue consists of a large number of relatively low value individual transactions. Due to the large volume of transactions in the year there is a risk that not all of the matters in the year have been appropriately recognised. The accrued income balance is calculated by reference to the historic performance of the business. The business has reviewed, over a number of years, the percentage of actual invoicing which relates to the prior year's activity and it applies these percentages to the Group's monthly forecast billing. There are inherent uncertainties in the estimations used. For the above reasons, revenue recognition including accrued income is considered to be a key audit matter. Refer to notes 2, 3, 4 and 17 in the financial statements for the disclosures relating to revenue and accrued income.
How the matter was addressed in the audit	Our audit procedures included: • Review of the appropriateness of the group's revenue polices in conjunction with IFRS 15 in order to gain comfort revenue has been recorded correctly. • Test of the key controls surrounding revenue to ensure they are operating as expected. • Substantive testing of a sample of revenue transactions back to cash receipts and requests for bills to be raised by lawyers. • Analytical review of revenue trends in line with lawyer numbers, with reference to joiners and leavers. • Separate substantive testing of year end cut-off by reviewing a sample of invoices raised around the year end to ensure that the revenue has been accounted for in the correct period. • Assessment of the reasonableness of the approach to calculating the accrued income balance and reperformance of the calculation to ensure it is consistently applied and reasonable with reference to post year end trading.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KEYSTONE LAW GROUP PLC

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	£287,000	£145,000
Basis for determining overall materiality	5% of Adjusted PBT	1% of Net Assets
Rationale for benchmark applied	Investors are interested in the return of their investment, especially in relation to dividends and therefore results of the year drive share price and the group's ability to pay dividends. We have taken the Adjusted PBT as calculated per the groups RNS announcements and discussed in the Financial Statements.	The value of the company is driven by its investment in Keystone Law Limited and as such its reasonable to base materiality on a benchmark associated which such
Performance materiality	£215,000	£108,000
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £10,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £7,250 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

OTHER INFORMATION

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

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

We have nothing to report in this regard

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 25, 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.

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

USE OF OUR REPORT

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

Colin Roberts (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
27 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 JANUARY 2020

	Note	2020 £	2019 (Restated) £
	29		
Revenue	4	**49,630,634**	42,689,253
Cost of sales		**(36,402,826)**	(31,107,330)
Gross profit		**13,227,808**	11,581,923
Depreciation and amortisation	5	**(794,658)**	(618,997)
Share based payments	5	**(128,286)**	(43,205)
Administrative expenses	5	**(7,219,826)**	(6,313,499)
Other operating income		**75,227**	72,876
Operating profit	6	**5,160,265**	4,679,098
Finance income	7	**151,991**	120,463
Finance costs	7	**(86,365)**	(54,550)
Profit before tax		**5,225,891**	4,745,011
Corporation tax expense	11	**(1,063,271)**	(937,782)
Profit and total comprehensive income for the year attributable to owners of the Parent		**4,162,620**	3,807,229
Basic and diluted EPS (p)	12	**13.3**	12.2

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2020

	Note	2020 £	2019 (Restated) £	2018 (Restated) £
Assets				
Non-current assets				
Property, plant and equipment				
- Owned assets	13	385,000	55,775	50,392
- Right-of-use assets	13	1,746,157	746,666	988,438
Total property, plant and equipment	13	2,131,157	802,441	1,038,830
Intangible assets	14	6,459,490	6,810,373	7,161,258
Available-for-sale financial assets	16	13,628	13,628	13,628
		8,604,275	7,626,442	8,213,716
Current assets				
Trade and other receivables	17	16,561,439	14,510,726	11,994,713
Cash and cash equivalents		4,386,586	6,343,637	3,589,969
		20,948,025	20,854,363	15,584,682
Total assets		29,552,300	28,480,805	23,798,398
Equity and liabilities				
Equity				
Share capital	18	62,548	62,548	62,548
Share premium		9,920,760	9,920,760	9,920,760
Share based payments reserve		171,491	43,205	-
Retained earnings		3,958,134	5,331,002	2,568,343
Equity attributable to equity holders of the Parent		14,112,933	15,357,515	12,551,651
Non-current liabilities				
Lease liabilities	24	1,499,900	524,777	836,680
Deferred tax liabilities	19	336,999	407,177	477,355
		1,836,899	931,854	1,314,035
Current liabilities				
Trade and other payables	23	12,500,318	11,575,061	9,477,899
Lease liabilities	24	497,791	311,971	320,063
Corporation tax liability		541,892	210,291	59,750
Provisions	22	62,467	94,113	75,000
		13,602,468	12,191,436	9,932,712
Total liabilities		15,439,367	13,123,290	11,246,747
Total equity and liabilities		29,552,300	28,480,805	23,798,398

The financial statements on pages 30 to 60 were approved and authorised for issue by the Board of Directors on 27 April 2020 and were signed on its behalf by:

A Miller
Director

27 April 2020

Keystone Law Group Plc
Registered No. 09038082

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2020

	Note	2020 £	2019 £
Assets			
Non-current assets			
Investment in Subsidiary	15	**9,171,491**	9,043,205
		9,171,491	9,043,205
Current assets			
Trade and other receivables	17	**4,774,758**	4,324,448
		4,774,758	4,324,448
Total assets		**13,946,249**	13,367,653
Equity and liabilities			
Equity			
Share capital	18	**62,548**	62,548
Share premium		**9,920,760**	9,920,760
Share based payments reserve		**171,491**	43,205
Retained earnings		**3,767,279**	3,301,043
Equity attributable to equity holders of the Company		**13,922,078**	13,327,556
Current liabilities			
Trade and other payables	23	**24,171**	40,097
Total liabilities		**24,171**	40,097
Total equity and liabilities		**13,946,249**	13,367,653

The Company's profit for the financial year was £6,001,724 (2019: £3,686,727).

The financial statements on pages 30 to 60 were approved and authorised for issue by the Board of Directors on 27 April 2020 and were signed on its behalf by:

A Miller
Director
27 April 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2020

		Attributable to equity holders of the Parent				
	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2018 (Restated)	17	62,548	9,920,760	–	2,568,343	12,551,651
Profit for the year and total comprehensive income		–	–	–	3,807,229	3,807,229
Dividends paid in the year		–	–	–	(1,044,570)	(1,044,570)
Share based payments		–	–	43,205	–	43,205
At 31 January 2019 (Restated)	17	62,548	9,920,760	43,205	5,331,002	15,357,515
Profit for the year and total comprehensive income		–	–	–	4,162,620	4,162,620
Dividends paid in the year		–	–	–	(5,535,488)	(5,535,488)
Share based payments		–	–	128,286	–	128,286
At 31 January 2020	17	62,548	9,920,760	171,491	3,958,134	14,112,933

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 JANUARY 2020

	Note	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total £
At 31 January 2018	17	62,548	9,920,760	–	658,886	10,642,194
Profit for the year and total comprehensive income		–	–	–	3,686,727	3,686,727
Dividend paid in the year		–	–	–	(1,044,570)	(1,044,570)
Share based payments		–	–	43,205	–	43,205
At 31 January 2019	17	62,548	9,920,760	43,205	3,301,043	13,327,556
Profit for the year and total comprehensive income		–	–	–	6,001,724	6,001,724
Dividend paid in the year		–	–	–	(5,535,488)	(5,535,488)
Share based payments		–	–	128,286	–	128,286
At 31 January 2020	17	62,548	9,920,760	171,491	3,767,279	13,922,078

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2020

	Note	2020 £	2019 £
Cash flows from operating activities	29		
Profit before tax		5,225,891	4,745,011
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	794,658	618,997
Share based payments	5	128,286	43,205
Finance income	7	(151,991)	(120,463)
Finance costs	7	86,365	54,550
		6,083,209	5,341,300
Working capital adjustments			
Increase in trade and other receivables		(2,050,713)	(2,516,013)
Increase in trade and other payables		925,257	2,058,456
(Decrease)/increase in provisions		(31,646)	19,113
Cash generated from operations		4,926,107	4,902,556
Interest paid		(8,710)	(7,659)
Interest portion of lease liability		(77,655)	(46,891)
Corporation taxes paid		(801,849)	(857,420)
Cash generated from operating activities		4,037,893	3,990,586
Cash flows from/(used in) investing activities			
Interest received		151,991	120,463
Purchases of property, plant and equipment		(403,501)	(39,609)
Net cash generated from investing activities		(251,510)	80,854
Cash flows from financing activities			
Lease repayments		(207,946)	(273,203)
Dividends paid in year		(5,535,488)	(1,044,570)
Net cash generated (used in)/from financing activities		(5,743,434)	(1,317,773)
Net (decrease)/increase in cash and cash equivalents		(1,957,051)	2,753,667
Cash at 1 February		6,343,637	3,589,970
Cash at 31 January		4,386,586	6,343,637

COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 JANUARY 2020

	Note	2020 £	2019 £
Cash flows from operating activities			
Profit/(loss) before tax		1,724	(13,273)
Adjustments to cash flows from non-cash items			
Finance costs	7	-	-
		1,724	(13,273)
Working capital adjustments			
Increase in trade and other receivables		(450,310)	(2,470,734)
(Decrease)/increase in trade and other payables		(15,926)	(171,423)
Cash used in operations		(464,512)	(2,655,430)
Corporation taxes paid		-	-
Cash generated from operating activities		(464,512)	(2,655,430)
Cash flows from investing activities			
Interest received		-	-
Purchases of property, plant and equipment		-	-
Net cash generated from investing activities		-	-
Cash flows from financing activities			
Dividend received from subsidiaries		6,000,000	3,700,000
Dividend paid		(5,535,488)	(1,044,570)
Net cash generated from financing activities		464,512	2,655,430
Net increase 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. 09039092) and subsequently used as the vehicle to acquire Keystone Law Limited (the main trading company in the Group) and its subsidiaries on 17 October 2014. The Company was re-registered as a Public Limited Company on 10 November 2017. The Company was incorporated and is domiciled in England and Wales. The principal activity of the Group is the provision of legal services.

The address of its registered office is:

48 Chancery Lane
London
WC2A 1JF

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

2. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with International Financial Reporting Standards and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC") as adopted by the European Union (collectively "adopted IFRSs").

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 IFRS 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 2020 and 2019.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

GOING CONCERN

The Group and Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is cash positive, has no debt, has a model which is strongly cash generative and has, to date, a strong trading performance. The Group's forecasts and projections show that the Group has sufficient resources for both current and anticipated cash requirements. In the month since the COVID-19 pandemic broke in the UK, whilst billing and cash generation have remained strong, the Group has seen a meaningful decline in the number of new instructions received. Accepting that the pandemic is still at an early stage and that the wider economic effect on the Group's clients and business, together with the unknown duration for which it may apply makes it impossible to assess the impact on the Group and Company with any certainty, we have modelled a range of scenarios, including some which are significantly more negative than that which are currently believed to be the most likely outcome for the Group. Under all of the scenarios currently modelled the business remains profitable and cash generative for the financial year ending 31 January 2021.

ACCOUNTING DEVELOPMENTS

With the exception of IFRS 16, none of the standards, interpretations and amendments effective for the first time from 1 February 2018, including IFRS 9 and IFRS 15, have had a material effect on the Financial Statements.

During the year, the group adopted IFRS 16 "Leases" (IFRS 16) for the first time, applying the full retrospective method. IFRS 16 replaces IAS 17 "Leases". The main change on application of IFRS 16 is the accounting for "operating leases" where rentals payable (as adjusted for lease incentives) were previously expensed under IAS 17 on a straight-line basis over the lease term.

Under IFRS 16 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 accounting for leases previously accounted for as finance leases under IAS 17 has not changed substantially, except that residual value guarantees are recognised under IFRS 16 as amounts expected to be payable rather than the maximum amount guaranteed, as required by IAS 17.

At 1 February 2019, a right-of-use asset of £0.7m and corresponding lease liability of £0.8m has been retrospectively recognised. At 1 February 2018, a right-of-use asset of £1.0m and corresponding lease liability of £1.2m has been retrospectively recognised. No impairment indictors were noted at the date of application.

The financial impact of applying IFRS 16 on the year ended 31 January 2019 and as at 1 January 2019 is set out below:

	Group £
Profit for the year ended 31 January 2019, as previously reported	3,807,229
Effect on "administrative expenses":	
- Reversal of operating lease expense under IAS 17	280,777
- Depreciation of right-of-use assets recognised on transition to IFRS 16	(233,886)
Total adjustment to "administrative expenses"	46,891
Interest expense on the lease liabilities recognised on transition to IFRS 16 within "finance costs"	(46,891)
Total adjustment to profit for the year	-
Profit for the year ended 31 January 2019	3,807,229

	Group £
Net assets, as previously reported at 31 January 2019	13,327,556
Right-of-use asset recognised on transition to IFRS 16 within property, plant and equipment	746,666
Lease liability recognised on transition to IFRS 16 within non-current borrowings	(524,777)
Lease liability recognised on transition to IFRS 16 within current borrowings	(311,971)
Reversal of accrued operating lease payments recognised under IAS 17 within trade and other payables	90,082
Total adjustment to net assets at 31 January 2019	-
Net assets, as restated at 31 January 2019	13,327,556

IMPACT ON THE STATEMENT OF CASH FLOWS

Whilst the cash flows of the group have not been affected by the adoption of IFRS 16, during the year ended 31 January 2019 cash outflows from financing activities presented with the Consolidated Statement of Cash Flows increased by £273,203 for cash payments of the principal portion of leases recognised within lease liabilities under IFRS 16. The corresponding increase in cash inflows from operating activities was due to a reduction in cash outflows for cash payments for IAS 17 "operating leases" of 320,094, net of additional cash outflows £46,891 for cash payments of the interest portion of leases recognised within lease liabilities under IFRS 16. There was no adjustment made to the Company Statement of Cash Flows.

INITIAL AND SUBSEQUENT MEASUREMENT OF THE RIGHT-OF-USE ASSET

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

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation methods applied are as follows:

Asset class	**Depreciation method and rate**
Leased property	On a straight-line basis over the lease term

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

SHORT-TERM LEASES

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

INITIAL MEASUREMENT OF THE LEASE LIABILITY

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

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

SUBSEQUENT MEASUREMENT OF THE LEASE LIABILITY

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

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

SEGMENT REPORTING

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

REVENUE

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

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

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

OPERATING PROFIT

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

ADJUSTED PBT

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

	2020 £	2019 (Adjusted) £
Profit before tax	**5,225,891**	4,745,011
Amortisation	**350,884**	350,884
Share based payments	**128,286**	43,205
One off impact of property changes	**51,547**	-
Adjusted PBT (as previously reported)	**5,756,608**	5,139,100
One off litigation case	**-**	(698,161)
Adjusted PBT (post one off litigation)	**5,756,608**	4,440,939

EQUITY 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.

DISBURSEMENTS

Disbursements are not included in income or expenses.

TAXATION

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

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

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

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

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 group.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

DEPRECIATION

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

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

GOODWILL

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

IMPAIRMENT OF INTANGIBLES

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

OTHER INTANGIBLE ASSETS

Lawyer relationships have been separately identified on acquisition and were recognised at fair value at the acquisition date. The fair value of the asset was calculated by reference to the net present value of the future benefits accruing to the Group from the utilisation of the asset discounted at an appropriate discount rate. These lawyer relationships are subsequently held at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset, which, in the case of lawyer relationships is estimated to be 10 years.

INVESTMENTS

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

FINANCIAL INSTRUMENTS

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

Financial assets are included on the balance sheet as trade and other receivables or cash and cash equivalents.

a. Trade and other receivables

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

b. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives financial instruments and comprise the investment held in Keypoint Law Pty Limited. This investment is included in non-current assets and is held at cost as management does not intend to dispose of it within 12 months of the end of the reporting period.

c. Trade and other payables

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

CASH AND CASH EQUIVALENTS

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

TRADE RECEIVABLES

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

TRADE PAYABLES

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

BORROWINGS

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

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

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

PROVISIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

LEASES

Following the adoption of IFRS 16, 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. On the cash flow, payments of leases now appears within the financing section of the cash flow statement.

SHARE CAPITAL

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

DEFINED CONTRIBUTION PENSION OBLIGATION

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

RECOGNITION OF LAWYER RELATIONSHIPS

Lawyer relationships have been separately identified on acquisition and are held at amortised cost. The value attributed to these lawyer relationships is based on a multi-period excess earnings valuation for the lawyers present in Keystone Law Limited at the acquisition date relative to the revenue that they are forecast to generate over the following 10 year period, less attrition. These lawyer relationships are estimated to have a useful life of 10 years and are amortised on a straight-line basis each year.

RECOVERABILITY OF TRADE RECEIVABLES

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

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

The business has carried out a review of prior years' billing activity in order to identify what share of post year end billing relates to the previous financial year. This profile is then applied to the current year's budgeted billing in order to calculate the value of WIP valuation at the year end. The WIP valuation is then validated by reviewing the actual billing between the year end and the time the accounts are prepared to ensure that actual performance is in line with the expected profile. Were the actual billing to differ to the budget but all other things remained equal, then a 1% variance in billing would equate to a movement in revenue of £66,429. This in turn would result in a change in the associated cost of sale of £49,221 and an impact to profit of £17,208.

LEASE LIABILITY

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

4. REVENUE

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

	2020 £	2019 £
Rendering of services	49,407,721	42,466,671
Other revenue	222,913	222,582
	49,630,634	42,689,253

All revenue is derived from a single segment.

In accordance with IFRS 8, no single customer represented more than 10% of revenue for any of the years ended 31 January 2019 or 2020.

5. EXPENSES BY NATURE

Expenses are comprised of:

	2020 £	2019 (Restated) £
Depreciation	74,276	34,226
Amortisation – intangible assets	350,884	350,884
Amortisation – right of use assets	369,498	233,887
Share based payments	128,286	43,205
Staff costs	3,414,691	2,884,754
Other administrative expenses	4,364,920	3,867,697
	8,702,555	7,414,653

Included within staff costs above are the costs of employed fee earners who are included within cost of sales (2020: £559,785; 2019: £438,952).

NOTES TO THE FINANCIAL STATEMENTS

6. OPERATING PROFIT

Operating profit is arrived at after charging:

	2020 £	2019 £
Depreciation expense	**74,276**	34,226
Fees to auditors: audit fee	**59,000**	52,500
Fees to auditors: non audit fees		
Solicitors accounts rules audit	**11,700**	11,500
Corporation tax compliance	**9,100**	9,000

7. FINANCE INCOME AND COSTS

	2020 £	2019 (Restated) £
Finance income		
Interest income on bank deposits	**151,991**	120,463
Finance costs		
Interest on bank overdrafts and borrowings	**(8,710)**	(7,659)
Interest on leases for own use	**(77,655)**	(46,891)
Total finance costs	**(86,365)**	(54,550)
Net finance costs	**65,626**	65,913

8. STAFF COSTS

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

	2020 £	2019 £
Wages and salaries	**2,984,228**	2,519,731
Social security costs	**322,025**	275,588
Pension costs, defined contribution scheme	**108,438**	89,435
	3,414,691	2,884,754

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

	2020 £	2019 £
Fee Earners	**10**	8
Administration and support	**44**	37
Total	**54**	45

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

9. DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION

The Directors' remuneration is disclosed within the Directors' Report. The Directors are considered key management personnel. Employers NIC paid on Directors' remuneration in the year was £71,875 (2019: £62,684).

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 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 individual's 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.

The Company has the following number of performance shares granted under Awards during the year (none had been exercised at 31 January 2020):

	2020	2019
Outstanding at 1 February	**92,208**	-
Granted	**68,985**	92,208
Outstanding at 31 January	**161,193**	92,208

The weighted average remaining contractual life of the performance shares was 1.8 years at 31 January 2020.

The following table shows Share Awards held by Directors:

	2020 £	2019 £
A Miller		
Outstanding at 1 February	**20,820**	-
Granted	**13,415**	20,820
Outstanding at 31 January	**34,235**	20,820

NOTES TO THE FINANCIAL STATEMENTS

10. EQUITY SETTLED SHARE BASED PAYMENT PLANS (LTIP)

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 £128,286 (2019: £43,205). 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%

11. CORPORATION TAX

TAX CHARGED/(CREDITED) IN THE INCOME STATEMENT

	2020 £	2019 £
Current taxation		
UK corporation tax	1,133,449	1,007,960
UK corporation tax adjustment to prior periods	-	-
	1,133,449	1,007,960
Deferred taxation		
Unwinding of deferred tax liability	(70,178)	(70,178)
Tax expense in the income statement	1,063,271	937,782

The actual tax charge is higher than the standard rate of corporation tax in the UK applied to the profit before tax 2020: 20.3% (2019 higher: 19.8%).

The differences are reconciled below:

	2020 £	2019 £
Profit before tax	5,225,891	4,745,011
Corporation tax at standard rate 19% (2019: 19%)	992,919	901,552
(Decrease)/Increase in current tax from adjustment to prior periods	-	-
(Decrease)/Increase from effect of expenses not deductible in determining taxable profit	70,352	35,630
Decrease from effect of adjustment in research and development tax credit	-	-
Total tax charge	1,063,271	937,782

NOTES TO THE FINANCIAL STATEMENTS

12. EARNINGS PER SHARE

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

	2020 £	2019 (Restated) £
Profit attributable to owners of the parent	**4,162,620**	3,807,299
Adjusted earnings	**4,693,247**	3,503,227

	2020 No of shares	2019 No of shares
Weighted average number of shares		
For basic earnings per share	**31,273,941**	31,273,941
Dilutive effect of grants under LTIP	**135,227**	53,447
For diluted earnings per share	**31,409,168**	31,327,388
Basic earnings per share (p)	**13.3**	12.2
Diluted earnings per share (p)	**13.3**	12.2
Adjusted basic earnings per share (p)	**15.0**	13.4

Adjusted basic earnings is calculated by making the same adjustments made when calculating adjusted PBT from PBT. Adjusted basic earnings per share is calculated by taking adjusted earnings and dividing it by undiluted average shares for the current year.

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets £	Furniture, fittings and equipment £	Total property, plant and equipment £
Cost or valuation			
At 31 January 2018 (Restated)	1,265,870	208,348	1,474,218
Additions	–	39,609	39,609
At 31 January 2019 (Restated)	1,265,870	247,957	1,513,827
Additions	2,054,303	403,501	2,457,804
Disposals	(1,265,870)	–	(1,265,870)
At 31 January 2020	2,054,303	651,458	2,705,761
Depreciation/Amortisation			
At 31 January 2018 (Restated)	277,432	157,956	435,388
Charge for the year	241,772	34,226	275,998
At 31 January 2019 (Restated)	519,204	192,182	711,386
Charge for the year	369,498	74,276	443,774
Disposal	(580,556)	–	(580,556)
At 31 January 2020	308,146	266,458	574,604
Carrying amount			
At 31 January 2020	1,746,157	385,000	2,131,157
At 31 January 2019 (Restated)	746,666	55,775	802,441
At 31 January 2018 (Restated)	988,438	50,392	1,038,830

The Company had no property, plant and equipment in either 2020 or 2019.

NOTES TO THE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

	Lawyer relationships £	Goodwill £	Total intangibles £
Cost or valuation			
At 31 January 2019 and 2020	3,508,840	4,807,411	8,316,251
Amortisation			
At 31 January 2018	1,154,993	-	1,154,993
Charge for the year	350,884	-	350,884
At 31 January 2019	1,505,877	-	1,505,877
Charge for the year	350,884	-	350,884
At 31 January 2020	1,856,761	-	1,856,761
Carrying amount			
At 31 January 2020	1,652,079	4,807,411	6,459,490
At 31 January 2019	2,002,963	4,807,411	6,810,374
At 31 January 2018	2,353,847	4,807,411	7,161,258

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 2020 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 2021 and then projected for a further four years. A discounted cash flow model was prepared taking into account management's assumptions for growth and the historical growth rates experienced by the Group, using a discount rate of 11 per cent.

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

15. INVESTMENTS

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 2020	2019
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.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2020 £	2019 £
Non-current financial assets		
Available-for-sale financial assets	**13,628**	13,628

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

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2020 £	2019 £	2020 £	2019 £
Trade receivables	**-**	-	**10,084,511**	8,255,214
Provision for impairment of trade receivables	**-**	-	**(2,659,483)**	(1,702,097)
Net trade receivables	**-**	-	**7,425,028**	6,553,117
Receivables from related parties	**4,744,973**	4,317,557	**10,360**	15,806
Accrued income	**-**	-	**6,642,950**	5,647,263
Prepayments	**29,785**	-	**1,036,900**	1,022,157
Other receivables	**-**	6,891	**1,446,201**	1,272,383
Total current trade and other receivables	**4,774,758**	4,324,448	**16,561,439**	14,510,726

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

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

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

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

	2020 Gross £	2020 Provision £	2020 Expected Loss Rate %	2019 Gross £	2019 Provision £	2019 Expected Loss Rate %
0 to 30 days	**3,612,605**	**-**	**0.0**	3,476,340	495	0.1
31 to 60 days	**1,634,222**	**-**	**0.0**	1,482,896	-	0.0
61 to 90 days	**1,024,966**	**-**	**0.0**	853,986	936	0.1
91 to 120 days	**589,719**	**-**	**0.0**	469,966	-	0.0
4 to 6 months	**292,601**	**26,757**	**9.1**	292,075	20,715	7.1
6 months to 1 year	**1,348,970**	**1,051,298**	**77.9**	759,052	759,052	100.0
Over 1 year	**1,581,429**	**1,581,429**	**100.0**	920,899	920,899	100.0
	10,084,512	**2,659,484**	**26.4**	8,255,214	1,702,097	20.6

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

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

	As at 31 January 2020		As at 31 January 2019	
	No.	£	No.	£
Ordinary shares of £0.002	**31,273,941**	**62,548**	31,273,941	62,548
	31,273,941	**62,548**	31,273,941	62,548

RIGHTS, PREFERENCES AND RESTRICTIONS

Ordinary shares have the following rights, preferences and restrictions:

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

19. DEFERRED TAX

	Company		Group	
	2020 £	2019 £	2020 £	2019 £
Accelerated capital allowances	**-**	-	**6,588**	6,588
Timing differences on intangible assets	**-**	-	**330,411**	400,589
Deferred tax	**-**	-	**336,999**	407,177

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 £108,437 (2019: £89,436).

21. PROVISIONS

	Dilapidations provision £	Total £
At 31 January 2019	**94,113**	94,113
Charge for the year	**(31,646)**	(31,648)
At 31 January 2020	**62,467**	62,465

The provision in the year has been reduced because, at the time of entering into a new lease for the second floor of its Chancery Lane offices, it took advantage of surrendering the existing lease and taking a new 5 year lease on the existing floor. As such, the existing dilapidations provision has been adjusted to reflect the new end date of the lease on the property. The Company has no provisions.

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE AND OTHER PAYABLES

	Company		Group	
	2020 £	2019 £	2020 £	2019 (Restated) £
Trade payables	-	-	**6,483,907**	6,438,227
Accrued expenses	**24,171**	40,097	**5,782,595**	4,958,717
Amounts owed to group undertakings	-	-	-	-
Social security and other taxes	-	-	**233,816**	178,117
Other payables	-	-	-	-
Total trade and other payables	**24,171**	40,097	**12,500,318**	11,575,061

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

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

23. LEASE LIABILITIES

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

	Company		Group	
	2020 £	2019 £	2020 £	2019 (Restated) £
Current lease liabilities				
Lease liabilities	-	-	**497,791**	524,777

	Company		Group	
	2020 £	2019 £	2020 £	2019 (Restated) £
Non-current lease liabilities				
Lease liabilities	-	-	**1,499,900**	311,971

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

24. DIVIDENDS

During the year, the Company paid the final dividend in respect of the year ended 31 January 2019, which was approved at the Company's 2019 Annual General Meeting (AGM), of 6.5p as well has an ordinary interim dividend in respect of the year ended 31 January 2020 of 3.2p per share and a special dividend of 8.0p per share. As such the total dividend payments in the year amounted to £5,535,488 (2019: £1,044,570). Due to the Covid-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board has decided that it would not be prudent to propose a final dividend at this time. As such, the total dividend for the period will be the amount paid as an interim dividend, that being 3.2p per share (2019: total ordinary dividend 9.0p (interim 2.5p)).

25. RELATED PARTY DISCLOSURES

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

The value of transactions with Root Capital LLP and companies within the Root Capital Fund II portfolio was £40,639 in the year ended 31 January 2020, and £49,170 in the year ended 31 January 2019. No balances were outstanding at any of the years ended 31 January 2019 and 2020.

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 £56,500 (2019: £47,930); the Group is also owed £10,360 at 31 January 2020 (2019: £15,806) in respect of loan financing which it provided to Keypoint.

26. 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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company		Group	
	2020 £	2019 £	2020 £	2019 £
Available-for-sale financial assets	-	-	**13,628**	13,628
	-	-	**13,628**	13,628

Assets held for sale are held at cost.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS

LOANS AND RECEIVABLES

	Company		Group	
	2020 £	2019 £	2020 £	2019 £
Cash and cash equivalents	-	-	**4,386,586**	6,343,637
Trade and other receivables	**4,744,973**	4,324,448	**15,524,539**	13,488,569
	4,744,973	4,324,448	**19,911,125**	19,832,206

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

	Company		Group	
	2020 £	2019 £	2020 £	2019 (Restated) £
Trade and other payables	**24,171**	40,097	**12,266,502**	11,396,944
	24,171	40,097	**12,266,502**	11,396,944

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

27. FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

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

CREDIT RISK AND IMPAIRMENT

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

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

LIQUIDITY RISK

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

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

INTEREST RATE RISK AND FAIR VALUE RISK

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

CAPITAL RISK MANAGEMENT

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

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

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

CURRENCY RISK

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

28. 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.

NOTES TO THE FINANCIAL STATEMENTS

29. PRIOR YEAR ADJUSTMENTS

The application of IFRS 16 has resulted in a need to restate certain of the prior year balances. As such, the prior year comparatives have been restated as detailed below:

2018	Reported £	Change £	Restated £
Consolidated Statement of Financial Position			
Assets for Use	-	988,438	988,438
Trade and other payables	(9,646,204)	168,305	(9,477,899)
Lease liabilities (Current liabilities)	-	(320,063)	(320,063)
Lease liabilities (Non-current liabilities)	-	(836,680)	(836,680)

2019	Reported £	Change £	Restated £
Income Statement			
Depreciation and amortisation	(385,111)	(233,886)	(618,997)
Administrative expenses	(6,594,276)	280,777	(6,313,499)
Finance costs	(7,659)	(46,891)	(54,550)
Consolidated Statement of Financial Position			
Assets for Use	-	746,666	746,666
Trade and other payables	(11,665,043)	89,982	(11,575,061)
Lease liabilities (Current liabilities)	-	(311,971)	(311,971)
Lease liabilities (Non-current liabilities)	-	(524,777)	(524,777)
Consolidated Statement of Cash Flows			
Depreciation and amortisation	385,111	280,777	665,888
Increase in trade and other payables	2,018,839	39,317	2,058,156
Cash generated from operating activities	3,717,383	320,064	4,037,477
Lease repayments	-	(320,094)	(320,094)

30. POST BALANCE SHEET EVENTS

In March 2020, the COVID-19 pandemic broke in the UK. This event has not impacted on the Group's financial performance for the year ended 31 January 2020 nor on its financial position as at 31 January 2020.

The current situation is unprecedented and the wider economic impact on our clients, together with the unknown duration for which it may apply, mean that the impact on the Group for the year ending 31 January 2021 cannot yet be assessed. In the month since the pandemic broke in the UK, whilst billing and cash generation have remained strong, we have, rather unsurprisingly, seen a meaningful decline in the number of new instructions received. Accepting that we are still at an early stage of the pandemic, we have modelled a range of scenarios, including some which are significantly more negative than that which we currently believe to be the most likely outcome for the Group, and under all of the scenarios currently modelled the business remains profitable and cash generative for this financial year.