Registered number: 10756735

THEO MIDCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY INFORMATION

Directors	Simon Thompson Robert Scott
Registered number	10756735
Registered office	Baines House Midgery Court, Fulwood Preston PR2 9ZH
Independent auditors	PricewaterhouseCoopers LLP No 1 Spinningfields Hardman Square Manchester M3 3EB

THEO MIDCO LIMITED

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GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The Directors present their strategic report for the year ended 31 December 2019.

Business review

This is the first set of consolidated accounts at Theo Midco Limited, the 2018 comparatives are consolidated however unaudited.

Theo Midco Limited Group ("the Group") undertakes two related principal activities, the provision of financial products and services to both UK customers who are either approaching or in retirement and to businesses that provide similar services to these customers. The Group has three main operating divisions – Key Advice, More 2 Life and AiR Group (AiR).

Key Advice specialises in providing independent financial advice and information to UK residents in or approaching retirement. This advice principally relates to equity release (both lifetime mortgages and home reversion products) and estate planning (wills and lasting powers of attorney) as well as information on retirement income products.

More 2 Life is a specialist lender that originates and administers lifetime mortgage products. Both Key Advice and More 2 Life are authorised and regulated by the Financial Conduct Authority (FCA).

AiR provides an award winning product sourcing tool (AiR Sourcing), allowing brokers to search products available for their customers based on their needs. AiR also runs the AiR Academy, providing the London Institute of Banking and Finance ("LIBF") endorsed training on how to provide good advice to customers and the AiR Mortgage Club, providing ongoing support to members as well as access to market leading product deals with lenders.

Results and performance

The statutory results for the Group show an operating loss of £2.3m (2018: £2.4m), a loss before tax of £16.9m (2018: £16.3m) and net liabilities of £11.0m (2018: £23.9m net assets).

Group turnover has increased in the year to £102.1m from £88.1m in the prior period.

Operating profit before amortisation and depreciation was £20.3m (2018: £19.0m).

The Group trading metric of Operating Profit Before Amortisation, Depreciation and Exceptionals and share based payment charge, which is considered by the Board to be the core measure of underlying performance for the Group, was £21.7m (2018: £22.0m).

The Company loss for the year ended 31 December 2019 was £3.1m (2018: £1.6m).

Strategy and Business Environment

More 2 Life

Our capital expenditure investment in IT systems combined with our market position and track record is enabling us to gain increasing market insight, enabling funders to be price competitive which in turn results in better products for customers in terms of both pricing and features.

Over the last year we have begun offering white label products to a number of providers including other companies in Key Group. This offering supports the marketing and customer offer of our adviser partners (which they are responsible for) and we believe increases the attractiveness of our product to consumers.

We have also begun providing direct application program interface (API) links to a number of industry sourcing tools to permit advisers to obtain a key facts illustration (KFI) relating to their search at the click of a button rather than needing to log into our adviser portal and re-enter the data.

These new initiatives together with our investment in enhanced broker support we believe will position us well to consolidate our market position as one of the largest equity release lenders.

Strategy and Business Environment (continued)

Key Advice

In October 2019, Key Advice launched a range of Key branded products provided by More 2 Life (another Key Group company). These products include market leading features and pricing as well as being advice fee free. In setting up this new proposition the Company incurred exceptional costs of £0.7m.

In December 2019, the Company approved a new appointed representative (TERE Advisors – a subsidiary of the Company) to focus on whole of market advice through self- employed advisers. Over 65 self-employed advisers signed up with TERE Advisors in the first month.

During 2019, the Company's immediate parent company began investing in an Advice platform, buying some of the existing bespoke software from the Company and developing it to provide a solution for the Company's in house advisors, self- employed advisers and, in 2020, advisers who are part of a new network co- founded with an existing mortgage network provider.

This group wide investment in a market leading solution enables the Company to continue to maintain its high quality advice and oversight across all adviser channels, reduce the amount of adviser time spent on administration and allow them to focus on providing ever better customer service.

The recent Covid-19 pandemic has been a challenging time for the entire industry, with face to face appointments no longer possible during the lockdown period. Our advisers rapidly transitioned to providing advice by phone and latterly by video call.

Overall demand for our products has reduced from Q1 during this period but is still showing significant year on year growth, and the Company has continued to trade throughout this period without needing to furlough staff or take advantage of the various Government support schemes.

The challenges of working in the lockdown have largely been met with the vast majority of colleagues able to work from home.

During the year, the Company listed the Class A Loan Notes on The International Stock Exchange on the Channel Islands.

AiR Group (AiR)

AiR continues to promote the use of its sourcing tool to new advisers and other mortgage clubs and networks (both on a branded and white label basis) so that all occasional advisers get access to the most up to date product offers and features. AiR also continues to negotiate better terms from product providers for its club members, leveraging the volume of business done by club members as a whole. Finally, AiR has recently launched a packaging service where more of the administration around processing the application is undertaken by AiR. This is proving increasingly popular with club members as customer applications tend to be processed more quickly when undertaken by a specialist team.

Financial Position

The bank debt consists of a £75m term loan, repayable in 2024 and an undrawn revolving credit facility of £5m, repayable in 2023. These facilities incur interest, which is payable quarterly, based on LIBOR. There are also financial covenants which the Group is required to comply and are tested on a quarterly basis.

In addition the Group holds £8.9m of loan notes with Directors and management personnel (2018: £8.2m).

The Directors have reviewed the likely performance of the business in the context of these covenants. For more information on the directors' assessment of the performance of the business in the context of the covenants, please refer to the Going Concern section of the Group Strategic Report below. Nevertheless, the Board receives a monthly report on the Group position showing covenant headroom against budget, to ensure that any unexpected deterioration is identified early and any necessary steps to prevent a breach can be taken.

Key Performance Indicators

	31 December 2019	31 December 2018	
Operating profit before amortisation, depreciation, loss on disposal, exceptionals and share based payment charge	£21.7m	£22.0m	Operating profit before amortisation, depreciation, loss on disposal, exceptionals and share based payment charge is considered by the Board to be the core measure of underlying performance for the Group.
Operating Cost/ Income ratio	78.8%	75.0%	Cost of sales and operating administrative expenses (excluding amortisation, depreciation and exceptional costs) as a percentage of turnover. Considered by the Board to be an indicator of the efficiency of the business.
Complaints	171	152	All complaints are tracked and investigated by the Compliance function. The level of upheld complaints received by the Group is minimal.
Complaints Upheld	17	12	

Stakeholder Considerations and s172 of the Companies Act 2006

The Directors of the Group have continued to act in a way that promotes the success of the Group throughout the year, taking into account the impact of their decisions on a broad range of stakeholders.

As a Board we have identified customers, shareholders, employees and suppliers as the stakeholder groups potentially most affected by our decisions. While we do consider the impact of our decisions on other stakeholders, including the local community and the environment, these are likely to be lower impact given the nature of our business.

In the context of our financial services businesses, our regulator requires us to consider the impact on our customers of everything we do, when we are making any decisions as a Board the impact on current and future customers is considered and any potential detriment mitigated before implementation.

Principal risks, including financial risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. Compliance with regulation, legal and ethical standards is a high priority for the Group and the Compliance team and Finance department take on an important oversight role in this regard, with the Audit, Risk and Compliance Committee (ARCC) providing Group level oversight.

The Board annually reviews and approves a risk appetite statement. The ARCC regularly reviews risk management activities to ensure focus on managing not only existing risks but also identifying emerging risk areas. The Group has business continuity plans in place which it regularly reviews and tests as part of this ongoing review process.

The Directors are responsible for the financial risk management process and ensuring that the Company has sufficient capital to meet its regulatory responsibilities. Suitable policies and procedures have been adopted by the Company in order to ensure an appropriate level of risk management is directed at the relevant elements of the business.

Principal risks, including financial risks and uncertainties

The principal business risks, including financial risks, to which the Group is exposed are considered to be:

- operational risk, which is associated with the Group's internal processes and systems and the potential for these not to function properly;
- regulatory risk, which is the risk that changes in laws or regulations, have an adverse impact on the equity release market in which it operates and the risk that the Group fails to comply with requirements laid down by its regulator, the Financial Conduct Authority (FCA);
- economic risk, which is the risk that changes in the economy, e.g. property prices, interest rate changes or government interventions such as the pension market reforms, impact market conditions and reduce the Group's ability to compete;
- strategic risk, which relates to the pursuit of an inappropriate strategy or that the risks associated with its implementation are not fully recognised;
- liquidity risk, which concerns the Group's ability to meet its financial obligations as they fall due; and
- interest rate risk, which relates to the impact of increasing interest rates on the affordability of the Group debt package.

Credit Risk is not considered to be a material risk to the Company.

The risks associated with the Covid-19 pandemic were not considered during 2019 but are being managed through the activation of the Group business continuity plan

Going Concern

The Board of Directors have determined that it is appropriate to continue to prepare the Group financial statements on a going concern basis.

In reaching this conclusion, the Board considered the increased uncertainties that all businesses are facing as a result of the coronavirus pandemic and the impact on the Group of the actions being taken by the UK Government to mitigate the health impact on the country. Specific uncertainties relating to the Group were also assessed including the likelihood of falls in house prices affecting funder appetite for equity release, reductions in customer demand as well as the ability to process customer lifetime mortgages in a timely fashion in the event of further lockdowns.

In making this assessment, the Group produced a revised three year plan including the likely trading performance of the Group, reflecting the most likely impact on the business of the coronavirus measures based on trading conditions seen during the start of the lockdown period.

Using this plan, the Group approached its lending banks and agreed a relaxation of previously agreed covenants to increase the business's flexibility in dealing with the uncertainty created by the response to the pandemic.

This plan was further updated, focusing on the next 18 months, and reflecting the trading performance seen during the UK wide lockdown and the improved trading conditions as this was eased. This latest forecast shows substantial headroom against all the Group loan covenants as well as significant cash generation.

In considering the robustness of this plan to unforeseen downside shocks, the Group sensitized this latest forecast, assuming that customer demand rather than increasing as the latest trading figures suggested instead reduced by 25% and that the Groups ability to complete cases in a timely manner also reduced by 15% despite the significant improvements being seen in this area post lockdown. The Directors believe that this scenario is the realistic worst case for the business, given its business model. Even in this realistic worst case scenario, the Group continued to have headroom against all its loan covenants and remained cash generative.

Additionally, in the event of this realistic worst case scenario occurring, the Group identified a number of further actions that could be taken swiftly such as reducing discretionary spend on marketing, investment in IT development and reducing discretionary bonuses. These actions increased the Group's headroom against all its loan covenants

Going Concern (continued)

In considering the Company position, the Board of Directors have also assessed the accessibility of this Company to Group funding if required and no issues were identified.

Future developments

The longer term trends supporting the lifetime mortgage sector remain strong. The population continues to age, house price wealth is increasing and pension savings are likely to be inadequate for many.

Over the coming year the Company continues to advance with its growth plans. However, the Covid-19 pandemic has meant that while our investment plans are continuing, the growth projected as a result of these plans is likely to take longer to emerge.

This report was approved by the board on 29 July 2020 and signed on its behalf.

Rob Scott

Robert Scott
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

Matters covered in the strategic report

An indication of the likely future developments of the business and details of financial risk management are included in the strategic report on page 1.

Results and dividends

The loss for the year, after taxation, amounted to £17.6m *(2018 - £16.4m unaudited)*.

The Consolidated Statement of Comprehensive Income is set out on page 17 and shows the loss for the year.

The Directors do not propose the payment of a dividend.

Directors' and officers' insurance

The Group maintains cover with respect to Directors' and officers' indemnity insurance. This insurance covers them in their roles as Directors of this Company and was in force during the financial year ended 31 December 2019 and also at the date of approval of the financial statements.

Directors

The directors who served during the year were:

Simon Thompson

Robert Scott

Directors' responsibilities statement

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

Company law requires the directors to prepare audited consolidated financial statements for each financial year. Under that law the directors have elected to prepare the audited consolidated financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the audited consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

Directors' responsibilities statement (continued)

In preparing these audited consolidated financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the audited consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Employee involvement

The Company has no employees, however the Group maintains a policy of regular consultation and discussion with its employees on a wide range of issues that are likely to affect their interests. The Group ensures that all employees are given regular updates of the performance of their business units and of the Group as a whole. Employee involvement is facilitated through a newsletter, the Staff Committee, regular communication briefings and an annual employee survey.

Disabled employees

The Group’s equal opportunities policy makes it clear that full and fair consideration must be given to the appointment of disabled people. The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Where an employee becomes disabled whilst employed by the Group the HR procedures require that reasonable effort is made to ensure they have the opportunity for continued employment within the Group. Retraining of employees who become disabled whilst employed by the Group is offered where appropriate to ensure that their career development is not unfairly restricted by their disability or perceptions of it.

Existence of branches of the Company outside of the United Kingdom

The Company has no branches outside of the United Kingdom.

Going Concern

The Group has confirmed its intention provide financial support to the company for at least 12 months from the date of approval of these financial statements due to the Company’s net liabilities position.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 29 July 2020 and signed on its behalf.

Rob Scott

Robert Scott
Director

Report on the audit of the financial statements

Opinion

In our opinion, Theo Midco Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2019; the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

We performed audit procedures over components considered to be financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).

Consolidated financial statements are prepared by the group for the first time for the current year ended 31 December 2019, the comparative balances for the year ended 31 December 2018 remain unaudited.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED (CONTINUED)

Overview

Overall group materiality: £542,000, based on 2.5% of earnings before interest, tax, depreciation and amortisation.
Overall company materiality: £1,399,000 (2018: £3,041,566), based on 1% of total assets.

The group has two significant trading entities (More 2 Life Ltd and Key Retirement Solutions Limited). These are assessed as significant components for group financial statements and a full scope audit is performed on all material account balances and financial information.
There are twenty two entities in the group. We have performed audit procedures over all material account balances within these entities relative to their significance to the group's financial performance and position and the group materiality.
Consolidated financial statements are prepared by the group for the first time, the comparative balances for the year ended 31 December 2018 remain unaudited.
We conducted all our audit work across the group using one engagement team.

Goodwill and intangible assets may be impaired (Group)
Assessment of the use of the going concern basis of preparation (Group and company)
Considerations relating to COVID-19 (Group and company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED (CONTINUED)

Key audit matter	***How our audit addressed the key audit matter***
Goodwill and Intangible Assets may be impaired On consolidation, the group recognises a goodwill balance which originated in August 2017 when Key Group Topco Limited and the underlying entities in the group were acquired by funds advised by Partners Group. Alongside this balance, intangible assets which are separately identifiable from the goodwill were recognised, specifically the relationships with lenders and brand name which were acquired. Refer to note 2.12 for accounting policies, note 3.1 for judgements in applying accounting policies and key sources of estimation uncertainty and note 12 for detailed disclosures around goodwill and other intangible assets. At the year end, the carrying value of the goodwill recognised was £97.5m, with the other intangibles being £85.0m. Under FRS 102, these balances are assessed for impairment on a yearly basis. Management performs an assessment utilising a value in use model, treating the group as a single cash generating unit and comparing the future expected cash flows to the carrying amount of the assets at the year end. We consider the significant risk to be in relation to the management's assumptions selected within the value in use model, in particular: • The assumed future revenue performance within the group, including the assessment of growth rates; • Future EBITDA margin which is then used to approximate cash flows which will be generated; • The discount rate applied to discount the future cash flows back to their current values; and • The inclusion of a terminal cash flows within the calculation. This key audit matter relates only to the group consolidated financial statements as it relates to assets which only arise on consolidation.	We assessed the accounting policy alignment to FRS102. As part of our detailed work we: • held discussions with management to understand the rationale behind the assumptions selected within the model; • compared management's forecast assumptions for revenue growth against wider industry trends, in particular the growth within the market sector which may support management's assumptions relating to revenue growth; • assessed management judgement to assess its business as one cash generating unit. • considered the historical performance within the group's results and whether these supported management's assumptions around cost and profitability (EBITDA margin) incorporated within the value in use model; • engaged our own valuation experts to calculate alternative appropriate discount rates and we assessed this against the rate utilised by management; • considered the appropriateness of the inclusion of a terminal cash flows within the model, and assessed the method of calculation; • Performed additional individual and combine sensitivities on management's assumptions assess the robustness of the impairment model; • Performed a model integrity check, including reviewing the model for mathematical and clerical accuracy; • Reviewed the disclosures in the financial statements. Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the value in use model to be reasonable. As a result we determined that there were no indicators of impairment and the carrying values of the assets remained appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED (CONTINUED)

Assessment of use of going concern basis of preparation

As a result of the COVID-19 pandemic there was significant disruption noted following the balance sheet date which has impacted the primary business activity of the group.

This led to a decline in revenue as the lockdown created operational challenges to service customer applications, for example with face to face advice and on-site valuations not being possible. Management determined that COVID-19 was a non-adjusting event at the balance sheet date however have considered its impact within the going concern basis of preparation of the accounts.

As stated on page 4, the directors have concluded that the going concern basis of accounting is appropriate. In reaching their conclusions, the directors have prepared detailed forecasts, including a severe but plausible downside forecast. Due to the impact of the lockdown on results, management have completed a renegotiation of the banking covenants in relation to the external financing of the business.

We considered this to be a key audit matter because whilst the directors forecasts demonstrate that the business is a going concern there remains a level of uncertainty as the directors work through the impact of the recent lockdown and assess the impact of the pandemic on the market and customer behaviour.

We obtained and evaluated management's going concern assessment, which included their cashflow forecasts under various scenarios.

We held a number of meetings with key management personnel to update our understanding of the impact of the outbreak on the group including the operational and the financial implications and specific issues faced by the business as a result of the lockdown. We have also discussed the wider risks associated with the market and economy and how these might evolve through the going concern period.

As part of our detailed work, we:

- reviewed and assessed the forecasts prepared by management, including the downside scenarios and their view of a severe, but reasonably plausible downside. In particular, this focused on the ability to meet the revised banking covenants through the going concern period;
- tested the mathematical accuracy of the calculations of future cash flow forecasts under various management scenarios;
- tested relevant underlying data used in management's base and downside models. This included the accuracy of the customer application and offer pipeline reporting which form the basis of the initial revenue forecasts, along with assessing the pipeline conversion rates utilised in the model;
- performed sensitivity analysis of key assumptions to assess and test the headroom above the banking covenant;
- challenged the key assumptions in management forecasts, including the reasonableness of customer demand and conversion rates included;
- assessed the historic accuracy of forecasting and incorporated this in our sensitivity assessments;
- discussed the forecasts with the Audit Risk and Compliance Committee and read Board committee meeting minutes;
- challenged management, and performed certain procedures, to understand and assess the impact of COVID-19 on market risk including the appetite of funders to lend on equity release products, and customer demand for equity release mortgages; and
- assessed whether the Directors' disclosures in relation to going concern adequately reflected the risks and uncertainties facing the group based on our understanding of the business.

	Our conclusion with respect to going concern is set out below on page 14.
Considerations of the impact of COVID-19 The COVID-19 pandemic is having a significant impact on the UK economy, financial markets and consequently the group's key business. Management have determined the impact to be a non-adjusting post balance sheet event and have also focused on the impact on: • The group's going concern assessment; and • The related disclosures in the Annual Report. We focused on the impact of COVID-19 on the going concern position and in terms of related disclosures in the Annual Report	We have assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event. In particular we considered: • The timing of the development of the outbreak across the world and in the UK; and • The timing and nature of UK government advice to UK citizens. We are satisfied that the pandemic is a non-adjusting post balance sheet event. We reviewed management's disclosures in relation to the impact of COVID-19 in the Annual Report and Financial Statements, considering whether the disclosures were consistent with the group's scenario planning and forecasts. We evaluated management's accounting estimates in light of COVID-19 and we have reported separate key audit matters in the following areas: • Assessment of use of going concern basis of preparation.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group constitutes two significant trading entities More 2 Life Ltd and Key Retirement Solutions Limited, these are assessed as significant components for the group financial statements. Audit procedures were performed over all material account balances and financial information of these entities.

There are twenty two subsidiaries in the group. The entities in the group which constitute balances material to the group financial statements include KRS Services Limited, KRS Finance Ltd, Key Group Bidco Limited, Home Equity Release Service Limited, The Retirement Lending Advisers Limited and Theo Bidco Limited. Audit procedures are performed on material balances scoped in for these subsidiaries due to their significance to the group's financial performance and position.

Consolidated financial statements are prepared by the group for the first time for the current year ended 31 December 2019, the comparative balances for the year ended 31 December 2018 remain unaudited.

All of the group's activities are undertaken in the United Kingdom. The accounting records for all entities within the group are located at the group's principal office in Preston, with consolidation of the group annual accounts being performed from this location. We did not require the involvement of any component auditors.

All audit procedures were conducted from the group's head office in Preston, performed by a single audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED (CONTINUED)

	Group financial statements	*Company financial statements*
Overall materiality	£542,000.	£1,399,000 (2018: £3,041,566).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report and financial statements, earnings before interest, tax depreciation and amortisation is the primary measure used to assess the performance of the group by investors and lenders.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £350,000 and £476,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £25,000 (Group audit) and £76,000 (Company audit) (2018: £152,078) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you 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 and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THEO MIDCO LIMITED (CONTINUED)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other matter

Group financial statements- Prior year financial statements

The consolidated financial statements for the year ended 31 December 2018, forming the corresponding figures of the consolidated financial statements for the year ended 31 December 2019, are unaudited. The parent company financial statements for the year ended 31 December 2018, forming the corresponding figures for the parent company financial statements for the year ended 31 December 2019 are, however, audited.

H. Varley

Heather Varley (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
29 July 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP	Note	2019 £'000	Unaudited 2018 £'000
Turnover	4	102,108	88,062
Cost of sales		(19,089)	(13,284)
Gross profit		**83,019**	**74,778**
Administrative expenses		(85,297)	(77,168)
Operating profit before amortisation, depreciation, loss on disposal, exceptionals and share based payment charge		21,691	22,048
Share based payment liability		(4)	(1,241)
Amortisation, depreciation and loss on disposal		(22,532)	(21,368)
Exceptional administrative expenses		(1,433)	(1,829)
Group operating loss	5	**(2,278)**	**(2,390)**
Finance income	8	85	53
Finance costs	9	(14,716)	(13,948)
Loss before taxation		**(16,909)**	**(16,285)**
Tax on loss	10	(735)	(75)
Loss for the financial year		**(17,644)**	**(16,360)**
Movement in cash flow hedging reserve		(209)	288
Total comprehensive expense for the financial period		**(17,853)**	**(16,072)**
Total Comprehensive expense attributable to:			
Owners of the parent		(17,624)	(15,551)
Non-controlling interest		(229)	(521)
		(17,853)	**(16,072)**

The Company loss for the year ended 31 December 2019 was £3.1m (2018: £1.6m).

The notes on pages 23 to 45 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	Group 2019 £'000	Unaudited Group 2018 £'000	Company 2019 £'000	Unaudited Company 2018 £'000
Fixed assets					
Intangible assets	12	**192,913**	209,199	**-**	-
Tangible assets	13	**1,992**	1,238	**-**	-
Investments	14	**-**	-	**57,925**	57,925
		194,905	210,437	**57,925**	57,925
Current assets					
Trade and other debtors due within one year	15	**5,550**	3,258	**5**	827
Trade and other debtors due after one year	15	**77**	158	**98,339**	93,326
Cash at bank and in hand	16	**22,042**	13,996	**-**	-
		27,669	17,412	**98,344**	94,153
Creditors: amounts falling due within one year	17	**(12,481)**	(9,741)	**(1)**	(265)
Net current assets		**15,188**	7,671	**98,343**	93,888
Total assets less current liabilities		**210,093**	218,108	**156,268**	151,814
Provision for other liabilities	22	**(228)**	(272)	**-**	-
Creditors: amounts falling due after more than one year	18	**(220,894)**	(211,011)	**(132,355)**	(124,805)
Net (liabilities) / net assets		**(11,029)**	6,825	**23,913**	27,009
Capital and reserves					
Called up share capital	25	**-**	-	**-**	-
Cash flow hedging reserve		**(108)**	102	**-**	-
Capital Contribution		**29,613**	29,613	**29,613**	29,613
Retained earnings					
At 1 January		**(22,369)**	(6,530)	*(2,604)*	*(996)*
Loss for the year attributable to the owners		**(17,415)**	(15,839)	*(3,096)*	*(1,608)*
		(39,784)	(22,369)	**(5,700)**	(2,604)
Equity attributable to owners of the parent		**(10,279)**	7,346	**23,913**	27,009
Non-controlling interests		**(750)**	(521)	**-**	-
Total shareholders' funds		**(11,029)**	6,825	**23,913**	27,009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2019

The financial statements on pages 17 to 45 were approved and authorised for issue by the board and were signed on its behalf on 29 July 2020.

Rob Scott

Robert Scott
Director

The notes on pages 23 to 45 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2019

GROUP	Share capital £'000	Cash flow hedging reserve £'000	Capital contribution £'000	Accumulated losses £'000	Non-controlling interests £'000	Total equity £'000
Balance at 31 December 2017 and at 1 January 2018	-	(186)	29,613	(6,530)	-	22,897
Comprehensive expense						
Loss for the financial period	-	-	-	(15,839)	-	(15,839)
Fair value movement from cash flow hedging instrument	-	288	-	-	-	288
Loss attributable to NCI	-	-	-	-	(521)	(521)
Total comprehensive expense	-	102	29,613	(22,369)	(521)	6,825
Balance at 31 December 2018 and at 1 January 2019 (unaudited)	**-**	**102**	**29,613**	**(22,369)**	**(521)**	**6,825**
Comprehensive expense						
Loss for the financial year	-	-	-	(17,415)	-	(17,415)
Fair value movement from cash flow hedging instrument	-	(210)	-	-	-	(210)
Loss attributable	-	-	-	-	(229)	(229)
Total comprehensive expense	-	(108)	29,613	(39,784)	(750)	(11,029)
Balance at 31 December 2019	**-**	**(108)**	**29,613**	**(39,784)**	**(750)**	**(11,029)**

The notes on pages 23 to 45 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY	Capital Contribution £'000	Accumulated losses £'000	Total equity £'000
Balance at 31 December 2017 and at 1 January 2018	29,613	(996)	28,617
Comprehensive expense			
Loss and total comprehensive expense for the year	-	(1,608)	(1,608)
Balance at 31 December 2018 and at 1 January 2019	**29,613**	**(2,604)**	**27,009**
Comprehensive expense			
Loss and total comprehensive expense for the year	-	(3,096)	(3,096)
Balance at 31 December 2019	**29,613**	**(5,700)**	**23,913**

The notes on pages 23 to 45 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2019 £'000	Unaudited Year ended 31 December 2018 £'000	Unaudited Year ended 31 December 2018 £'000
Net cash from operating activities	23	**21,486**		14,692	
Taxation paid		(2,423)		(3,006)	
Net cash generated from operating activities			**19,063**		11,686
Cash flow from investing activities					
Purchase of subsidiary (net of cash acquired)		-		(990)	
Purchase of intangible assets		(5,677)		(4,849)	
Purchase of tangible assets		(1,353)		(590)	
Interest received		-		9	
Net cash used in investing activities			**(7,030)**		(6,420)
Cash flow from financing activities					
Repayment of loan notes		-		(786)	
Issue of new loan notes		49		-	
Interest paid		(4,036)		(4,139)	
Subscribed share capital		-		-	
Net cash used in financing activities			**(3,987)**		(4,925)
Net increase in cash and cash equivalents			**8,046**		341
Cash and cash equivalents at beginning of year			**13,996**		13,655
Cash and cash equivalents at end of year			**22,042**		13,996

Cash and cash equivalents consists of:

Cash at bank and in hand	**22,042**	13,996

The notes on pages 23 to 45 form part of these financial statements.

1. General information

Theo Midco Limited is a private company limited by shares and incorporated in the United Kingdom and registered in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

Going concern

After reviewing the Group's forecasts and projections (which include the Company) and the relationship of the Company with its Group and its position as obligor, the Board of Directors have determined that the Company has adequate resources to continue to prepare the Company financial statements on a going concern basis. Details of the approach taken by the Board to come to this conclusion and the actions taken as a result of this assessment are included within the Strategic Report.

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

Details of the approach taken by the Board to come to this conclusion and the actions taken as a result of this assessment are included within the Strategic Report.

2. Accounting policies (continued)

2.2 Basis of consolidation

This is the first set of consolidated accounts at Theo Midco Limited, the 2018 comparatives are consolidated however unaudited.

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102.

2.3 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Rendering of services

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Turnover represents sales to external customers and third parties at invoiced amounts less Value Added Tax or local taxes on sales. Turnover incorporates commissions from equity release and annuity providers; packaging fees from equity release providers; loan sale premiums and servicing fees from third parties; administration, advice, arrangement and other fees from customers; customer fees for will writing services; and distribution fees earned on the sale of retirement products.

Turnover is recognised at various stages as the equity release customer goes through the lending process. Administration fees due from equity release customers are recognised at the point of the equity release arrangement being written. All other customer fees, commission, packaging fees and loan sale premiums are recognised as part of turnover at the point of the completion of the arrangement. Servicing fees are recognised on a monthly basis in line with the contractual agreements. Distribution fees are recognised over the life of the product from the date the funds are invested.

2. Accounting policies (continued)

2.4 Exceptional expenses

Exceptional expenses are those which are material in terms of monetary value or nature to the entity and non-recurring.

2.5 Cost of sales

Cost of sales represent the cost of introducer fees paid to third party brokers, legal fees incurred in the completion of a loan and other sundry fees. These costs are recognised on completion.

2.6 Other operating income

Other operating income incorporates income received from equity release providers as a contribution towards marketing and other expenses borne by the Group.

2.7 Hedge accounting

The Group applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage interest rate exposures and are designated as cash flow hedges of floating rate borrowings. Changes in the fair values of derivatives designated as cash flow hedges, which are deemed to be effective, are recognised directly in equity within a cash flow hedging reserve. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change of the fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the Statement of Comprehensive Income.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. The amounts deferred in equity are recognised in the income statement to match the recognition of the hedged item. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the forecast debt instrument is derecognised or the hedging instrument is terminated

2.8 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Interest income

Interest income on mortgage assets represents interest chargeable on customer balances. Interest is recognised in the Statement of Comprehensive Income when it is charged to the customers’ account and includes an accrual at the end of the period for accrued interest not yet charged.

2.10 Pension costs

Contributions to the Group's defined contribution pension schemes are charged to the Statement of Comprehensive Income in the period in which they become payable. The assets of the schemes are held separately in independently administered funds. Any amounts outstanding at the period-end are shown as a separately identifiable asset or liability in the Statement of Financial Position.
recognised when they are paid. Final equity dividends are recognised when approved by the shareholders.

2. Accounting policies (continued)

2.11 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when they are paid. Final equity dividends are recognised when approved by the shareholders.

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

2.12.1 The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;

2.12.2 Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and

2.12.3 Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.13 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer’s interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Consolidated Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

2. Accounting policies (continued)

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed fifteen years.

2.14 Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Computer software	-	20%	per annum straight line

Amortisation is included in administrative expenses in the profit and loss account.

2.15 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Fixtures, fittings and equipment	-	20%	per annum straight line
Tenant improvements	-	20%	per annum straight line or the remaining lease term, whichever is shorter
Computer hardware	-	20%	per annum straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.16 Impairment of tangible assets

The need for any tangible asset impairment write-down is assessed by the comparison of the carrying value of the asset against the higher of realisable value and value in use.

2.17 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.18 Mortgage assets

The mortgage assets are long term equity release mortgages, secured on the client's property. The loans are valued at the cost of the loan advanced or purchased, with interest charged and accrued, less provision for any impairment.

2. Accounting policies (continued)

2.19 Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at the amount of the net proceeds received. Financial liabilities and equity are classified according to the substance of the financial instruments' contractual obligations, rather than the financial instruments' legal form.

2.20 Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the Statement of Comprehensive Income on a straight-line basis, over the term of the lease.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to profit or loss over the term of the lease.

2.21 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the date of the Statement of Financial Position, and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the date of the Statement of Financial Position.

2.22 Share-based payment

The Group provides share-based payment arrangements to certain employees.

Equity-settled arrangements are measured at fair value (excluding the effect on non-market based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the income statement.

In line with the leaver provisions detailed in the articles, a liability has been recognised for bad leavers at cost, any additional amount is recognised as an equity settled share based payment at fair value as at the grant date. Judgements that have been made in relation to shares / equity versus cash settled are detailed in the accounting policies.

2.23 Reserves

The Group's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Share premium account represents the premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.
- The cash flow hedging reserve represents the movement in the fair value of any cash flow hedging instruments which have been designated as effective.
- Capital contribution reserve represents funds received from the Company's parent company as a capital contribution.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

Certain reported amounts of assets and liabilities are subject to estimates and assumptions. Estimates and judgements by management are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.4 Impairment of intangible assets including goodwill and investments

The carrying amounts of assets are reviewed to determine whether there is any indication of impairment. An asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

If any such indication exists, a full impairment review is undertaken for that asset, or group of assets, and any estimated loss is recognised in the Statement of Comprehensive Income. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Due to the nature of the intangible assets, the group is considered as one cash generating unit (CGU), a discounted cashflow using terminal values was produced and sensitized. The Group continued to have headroom against the carrying value of all its intangible assets.

3.2 Share classification

A priority shareholders are deemed to be acting as part of the entity therefore the A priority shares are classed as equity in the financial statements.

B priority shareholders (Management) act as part of the entity as such the B priority shares are classed as equity in the financial statements.

B & C ordinary shares are classed as equity in the accounts. A liability at cost has been recognised for certain leaver provisions. There are further leaver provisions attached to the B & C ordinary shares, however none of the current shareholders are expected to fall within the definition of good leavers and the redemption method would be considered on a case by case basis hence making this an equity settled scheme

4 Turnover

Turnover is wholly attributable to the principal activity of the Group and arises solely within the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2019	Unaudited 2018
	£000	£000
Depreciation	573	251
(Profit)/Loss on disposal	(13)	123
Hire of other assets - operating leases	41	16
Hire of land and buildings - operating leases	379	232
Amortisation of goodwill and other intangible assets	21,972	20,994
Exceptional administrative expenses	1,433	1,829

5 Operating loss (continued)

Exceptional administrative expenses include; £0.7m relating to the launch of a new business proposition, £0.6m relating to rebranding costs (2018: £1.4m), Primetime losses of £0.1m (2018:£nil) and £0.0m relating to the review of the deferred income calculation estimate (2018: £0.4m).

Auditors remuneration

	2019	Unaudited 2018
	£'000	£'000
Fees payable to the Group's auditor and its associates in respect of:		
Fees payable to the Company's auditor for the audit of the company and the Group's consolidated financial statements	**30**	21
Audit of the Company's subsidiaries	**137**	99
Audit related assurance services	**-**	5
Other non-audit services	**-**	36
Total amount payable to the Company's auditor	**167**	161

The other non-audit services relate to work performed by PricewaterhouseCoopers LLP prior to their appointment as independent auditors.

6 Employee numbers and expense

The average monthly number of persons employed by the Group, including the Directors, during the year was as follows:

	2019	Unaudited 2018
	No.	No.
Management	**51**	54
Sales staff	**350**	269
Administration staff	**145**	153
	546	476

	2019	Unaudited 2018
	£000	£000
Wages and salaries	**21,108**	20,431
Social security costs	**2,170**	2,290
Other pension costs	**815**	665
	24,093	23,386

7. Directors' remuneration

	2019	Unaudited 2018
	£000	£000
Aggregate emoluments	**1,737**	2,551
Group pension contributions to money purchase schemes	**20**	16
	1,757	2,567

Highest paid Director

	2019	Unaudited 2018
	£'000	£'000
Aggregate emoluments	**334**	344
Group pension contributions to money purchase schemes	**-**	-
	334	344

The number of Directors receiving emoluments was 9 (2018: 9).

8. Finance income

	2019	Unaudited 2018
	£'000	£'000
Interest receivable from group companies	**85**	53
	85	53

9. Finance costs

	2019	Unaudited 2018
	£'000	£'000
Bank interest payable and other charges	**4,512**	10,420
Ineffective movements on cash flow hedging instruments	**-**	(60)
Interest payable on loan notes and other charges	**10,204**	3,588
	14,716	13,948

10. Tax on loss

Group	2019 £'000	2019 £'000	Unaudited 2018 £'000	Unaudited 2018 £'000
Current tax				
UK corporation tax at 19.00% (2018: 19.00%)	1,451		2,329	
Adjustments in respect of prior periods	(460)		(319)	
Total current tax charge		991		2,010
Deferred tax				
Origination and reversal of timing differences	(854)		(1,703)	
Adjustments in respect of prior periods	598		(232)	
Effect of tax rate change on opening balance	-		-	
Total deferred tax credit		(256)		(1,935)
Tax on loss		735		75

10. Tax on loss (continued)

	Year ended 31 December 2019	Year ended 31 December 2018 (unaudited)
	£'000	£'000
Loss before tax	(16,909)	(16,285)
Tax on loss at the standard rate of corporation tax in the UK of 19% (2018: 19%)	(3,213)	(3,094)
Effects of:		
Fixed asset differences	4	2
Expenses not deductible for tax purposes	13,309	3,661
Income not taxable for tax purposes	(5,662)	(11)
Group income	(3,653)	-
Group relief surrendered / (claimed)	(246)	-
Adjustments to tax charge in respect of previous periods	(458)	(319)
Adjustments to tax charge in respect of previous periods - deferred tax	598	(232)
Adjust closing deferred tax to average rate	107	189
Adjust opening deferred tax to average rate	(118)	(123)
Deferred tax not recognised	67	2
Total tax charge	735	75

Tax rate changes

The Finance Act 2016 introduced legislation reducing the UK corporation tax rate from 1 April 2020 to17%. This reduced rate was used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. In the Budget of 11 March 2020, the UK Government reversed this rate reduction, announcing that the UK corporation tax rate will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020. This measure would increase the Company's deferred tax liability by approximately £20k.

11. Exceptional administrative expenses

	2019	Unaudited 2018
	£'000	£'000
Exceptional items	**1,433**	1,829
	1,433	1,829

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. Intangible assets

Group	Goodwill £'000	Other £'000	Computer Software £'000	Total £'000
Cost				
At 1 January 2019 (unaudited)	128,508	101,374	8,758	238,640
Additions	-	-	5,677	5,677
Reclass	-	-	55	55
At 31 December 2019	128,508	101,374	14,490	244,372
Accumulated amortisation				
At 1 January 2019 (unaudited)	17,872	9,835	1,734	29,441
Charge for the year	13,111	6,498	2,363	21,972
Reclass	-	-	46	46
At 31 December 2019	30,983	16,333	4,143	51,459
Net book value				
At 31 December 2019	97,525	85,041	10,347	192,913
At 31 December 2018	110,636	91,539	7,024	209,199

	Net book value 2019 £000	Net book value 2018 £000	Remaining amortisation 2019 Years	Remaining amortisation 2018 Years
Lender relationships - More 2 Life Ltd	68,187	73,397	12.5	13.5
Lender relationships - Key Retirement Solutions Limited	7,898	8,502	12.5	13.5
Brand - Key Retirement Solutions Limited	8,956	9,640	12.5	13.5
	85,041	91,539		

13. Tangible assets

Group	Computer Hardware £'000	Fixtures, Fittings and Equipment £'000	Tennant Improvements £'000	Total £'000
Cost				
At 1 January 2019 (unaudited)	1,046	217	331	1,594
Additions	544	18	791	1,353
Disposals	(38)	(8)	-	(46)
Reclass	(55)	-	-	(55)
At 31 December 2019	1,497	227	1,122	2,846
Accumulated depreciation				
At 1 January 2019 (unaudited)	258	66	32	356
Charge for the year	397	72	104	573
On disposals	(29)	-	-	(29)
Reclass	(46)	-	-	(46)
At 31 December 2019	580	138	136	854
Net book value				
At 31 December 2019	917	89	986	1,992
At 31 December 2018	788	151	299	1,238

14. Investments

Company	Group undertakings £'000
Cost	
At 1 January 2019 (unaudited)	57,925
Addition	-
At 31 December 2019	57,925
Net book value	
At 31 December 2019	57,925
At 31 December 2018	57,925

14. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Theo Bidco Limited	England & Wales	Ordinary	100%
Key Group Topco Limited *	England & Wales	Ordinary	100%
Key Group Topco 1 Limited *	England & Wales	Ordinary	100%
Key Group Topco 2 Limited *	England & Wales	Ordinary	100%
Key Group Bidco Limited *	England & Wales	Ordinary	100%
Key Retirement Group Limited *	England & Wales	Ordinary	100%
KRS Finance Limited *	England & Wales	Ordinary	100%
KRS Group Limited *	England & Wales	Ordinary	100%
Key Retirement Solutions Limited *	England & Wales	Ordinary A Ordinary B	100%
Key Partnerships Limited *	England & Wales	Ordinary	100%
More 2 Life Limited *	England & Wales	Ordinary	100%
More 2 Life SPV 1 Limited *	England & Wales	Ordinary	100%
More 2 Life Asset SPV 2 Limited *	England & Wales	Ordinary	100%
KRS Services Limited *	England & Wales	Ordinary	100%
Equity Release Assured Limited *	England & Wales	Ordinary	100%
Retirement People Limited *	England & Wales	Ordinary	100%
Modern Lending Advisers Limited *	England & Wales	Ordinary	100%
Home Equity Release Service Limited *	England & Wales	Ordinary	100%
Key Money Limited *	England & Wales	Ordinary	100%
Primetime Retirement Group Limited *	England & Wales	A Ordinary	79%
Primetime Retirement Limited *	England & Wales	Ordinary	79%
Key Move Property Services Limited *	England & Wales	Ordinary	100%
Key Secured Lending Limited *	England & Wales	Ordinary	100%
More 2 Life Retirement Income Limited *	England & Wales	Ordinary	100%
The Retirement Lending Advisers Limited	England & Wales	Ordinary	100%
Equity Release Club Holdings Limited *	England & Wales	Ordinary	51%
Answers in Retirement Limited *	England & Wales	Ordinary	51%
Later Life Guidance Limited *	England & Wales	Ordinary	51%
Key Later Life Services Limited *	England & Wales	Ordinary	100%
Key Legal Trustees Limited *	England & Wales	Ordinary	100%
TERE Advisers limited *	England & Wales	Ordinary	51%
Key Group Asset Management Limited *	England & Wales	Ordinary	100%

* The investment in these companies is held indirectly. The proportion held is the effective interest at the year end.
The registered office of all subsidiary undertakings excluding Answers in Retirement Limited and Later Life Guidance Limited is Baines House, Midgery Court, Pittman Way, Fulwood, Preston, PR2 9ZH. The registered office of Answers in Retirement Limited and Later Life Guidance Limited is Southgate House, Southgate Street, Gloucester, Gloucestershire, GL1 1UD.

Dormant subsidiaries are exempt from the requirement to prepare individual accounts under section 394A of the Companies Act 2006

15. Debtors

Due within one year	**Group 2019 £'000**	Unaudited Group 2018 £'000	**Company 2019 £'000**	Company 2018 £'000
Trade debtors	1,828	1,851	-	-
Corporation tax	1,011	-	-	-
Deferred tax (note 21)	-	-	-	827
Other debtors	1,237	354	-	-
Prepayments and accrued income	1,474	1,053	5	-
	5,550	3,528	5	827

Due after more than one year	**Group 2019 £'000**	Unaudited Group 2018 £'000	**Company 2019 £'000**	Company 2018 £'000
Amounts owed by Group undertakings	-	-	98,339	93,326
Derivatives	-	102	-	-
Mortgage asset	77	56	-	-
	77	158	98,339	93,326

16. Cash at bank and in hand

	Group 2019 £'000	Unaudited Group 2018 £'000
Cash at bank and in hand	**22,042**	13,996
	22,042	**13,996**

17. Creditors: amounts falling due within one year

	Group 2019 £'000	Group 2018 Unaudited £'000	**Company 2019 £'000**	Company 2018 £'000
Trade creditors	1,785	569	-	-
Amounts owed to Group undertakings	-	265	-	265
Corporation tax	-	535	-	-
Other taxation and social security	794	683	-	-
Other creditors	300	125	-	-
Accruals and deferred income	9,602	7,564	1	-
	-	-	-	-
	12,481	9,741	1	265

18. Creditors: amounts falling due after one year

	Group 2019 £'000	Group 2018 Unaudited £'000	**Company 2019 £'000**	Company 2018 £'000
Bank loans and overdrafts	73,007	72,565	-	-
Loan notes	83,424	77,087	83,424	77,087
Other creditors	130	-	-	-
Amounts owed to Group undertakings	48,932	45,707	48,931	47,718
Deferred tax (note 21)	14,436	14,692	-	-
Accruals and deferred income	-	-	-	-
Bad Leaver Provision	965	960	-	-
	220,894	211,011	132,355	124,805

Amounts owed to Group undertakings are unsecured, interest free and are repayable on demand. The Company is an Obligor under the Group Senior Facility Agreement, which governs the £75m senior loan and £5m revolving credit facility (undrawn at year end but fully drawn in March 2020). This means that the Company has given security over its assets and, in conjunction with the rest of the Group, is responsible for maintaining compliance with its covenants.

19. Loans

Amounts due in more than five years for the Group relate to:

£75m bank loan, accruing an interest rate of LIBOR +4.25% per annum, due for repayment in 2024. The carrying value as at 31 December 2019 was £75m (2018: £75m). Security has been taken on the assets of the major trading subsidiaries of the Group. The syndicate of lenders as at 31 December 2019 comprise Credit Suisse (Switzerland) Limited, National Westminster Bank Plc, Hermes Direct Lending Fund I S.à r.l., EMMPD (Investment) S.à r.l. and EMMPD (ABR) S.à r.l. The Group has access to a revolving credit facility of £5m, repayable in 2023, this was undrawn as at 31 December 2019 (2018: undrawn)

Bank loan arrangement fees of £3.1m (2018: £3.1m) have been capitalised against the carrying value of the bank loan. As at 31 December 2019, £2.0m (2018: £2.4m) had not been charged to the Income Statement.

Derivatives of £0.1m (creditor) (2018: £0.1m (debtor)) relate to cash flow hedging instruments.

£72.6m (2018: £67.2m) A Loan Notes, accruing an interest rate of 8% per annum, due for repayment in 2025. The carrying value as at 31 December 2019 including accrued interest was £75.0m (2018: £69.4m). During the year, the Company listed the Class A Loan Notes on The International Stock Exchange on the Channel Islands.

£8.6m (2018: £9.0m) B Loan Notes, accruing an interest rate of 8% per annum, due for repayment in 2025. The carrying value as at 31 December 2019 including accrued interest was £8.9m (2018: £9.3m).

Loan note issue costs of £0.6m have been capitalised against the carrying value of the A & B Loan Notes. As at 31 December 2019, £0.4m (2018: £0.5m) had not been charged to the Income Statement.

Debt maturity:

	Loan notes		**Bank loans and overdrafts**		**Derivatives**	
		Unaudited		Unaudited		Unaudited
Group	**2019**	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Due less than one year	-	-	-	-	-	-
Due between one to two years	-	-	-	-	-	-
Due between two to five years	83,424	77,087	73,007	72,565	-	-
Due more than five years	-	-	-	-	130	-
	83,424	77,087	73,007	72,565	130	-

20. Financial instruments

	Group 2019 £'000	Company 2019 £'000	Unaudited Group 2018 £'000	Company 2018 £'000
Financial assets				
Financial assets that are debt instruments measured at amortised cost	3,065	98,339	2,205	93,326
Financial liabilities				
Financial liabilities measured at amortised cost	(217,180)	(132,356)	(158,175)	(77,352)

21. Deferred tax

Group	**£'000**
At 1 January 2019 (unaudited)	14,692
Charge for the year	(256)
At 31 December 2019	14,436

	2019 £'000	Unaudited 2018 £'000
Due after more than one year		
Short-term timing differences	14,436	14,692

22. Provision for other liabilities

	Loan sale premium £'000
At 1 January 2019	272
Amounts utilised	(44)
At 31 December 2019	228

23. Net cash generated from operating activities

	2019 £'000	Unaudited 2018 £'000
Loss for the financial year	(17,644)	(16,360)
Adjustments for:		
Tax on profit	735	75
Net interest expense	14,631	13,895
Operating loss	(2,278)	(2,390)
Amortisation of intangible assets	21,972	20,994
(Profit) / loss on disposal of intangible assets	-	116
Depreciation of tangible assets	573	251
(Profit) / loss on disposal of tangible assets	(13)	9
Working capital movements:		
(Increase) / decrease in debtors	(1,302)	(803)
Increase / (decrease) in payables	2,534	(3,485)
Cash flow from operating activities	21,486	14,692

Analysis of changes in net debt £’000

	Unaudited At 01 January 2019	Cash Flows	Non-Cash Movements	At 31 December 2019
Cash and cash equivalents	13,996	8,046	-	22,042
Debt Due After 1 year:				
Loan Notes	77,087	-	6,337	83,424
Bank Loan	72,565	(4,036)	4,478	73,007
Intercompany Loan Notes	9,011	-	721	9,732
Derivative Instrument	(103)	-	233	130
Net Debt	172,556	4,010	11,769	188,335

24. Share based payments

The group provides share-based payment arrangements to certain employees, which are subject to leaver provisions detailed in the articles. The fair value was recognised as at the grant date and in line with the accounting policy there is no change to the fair value within the year and there are no movements/expenses that have been recognised in the financial statements in the year.

25. Share capital

	2019	2018
Allotted, called up and fully paid	**£'000**	£'000
1 (2018: 1) Ordinary shares of £1.00 each	-	-

26. Commitments under operating leases

At 31 December 2019 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group	Unaudited Group
	2019	2018
	£000	£000
Not later than 1 year	**522**	429
Later than 1 year and not later than 5 years	**1,149**	1,601
Later than 5 years	**-**	-
	1,671	2,030

27. Company Statement of Comprehensive Income

The Company has taken advantage of the exemption of section 408 of the Companies Act 2006 from presenting its own Statement of Comprehensive Income. The Company loss for the year ended 31 December 2019 was £3.1m (2018: £1.6m).

28. Non-controlling interests

In November 2019 the Group set up a 51% owned subsidiary in TERE Ltd.

Group and Company

The movement in non-controlling interests was as follows:

	2019	2018
	£'000	£'000
At 1 January	**(521)**	-
Acquisition of Answers in Retirement Ltd and Later Life Guidance Ltd	-	24
Total comprehensive income attributable to non-controlling interests	**(229)**	(545)
At 31 December	**(750)**	(521)

29. Related party transactions

The following Directors of Group Companies are also shareholders of the Group; S Thompson, R Scott, S Groves, D Young, D Harris, W Hale, N Swarbrick and C Bibby. These individuals have interests in the B loan notes, which accrue interest at 8%. This interest rate mirrors the A loan note interest rate as part of the acquisition of Key Group by funds advised by Partners Group.

The remuneration and benefits for the executive directors has been reviewed by the Group remuneration committee and represent a market normal remuneration package for each individual given their role in the Group.

The non-executive directors negotiated their remuneration with Partners Group prior to joining the Board in 2017. The Group believes their remuneration reflects market rates for directors of their experience.

The funds advised by Partners Group, which have de facto control of the Group, also have an interest in the A loan notes.

During the period, the Group entered into transactions, in the ordinary course of business, with these related parties. The transactions entered into, and the balances outstanding at 31 December 2019 are as follows:

	Charges from related party	Amounts owed to related party
	£'000	£'000
Partners Group		
Payable in relation to A loan notes at 1 January 2019		69,466
A Loan notes issued in period	-	-
Interest accruing on A loan notes	**5,557**	5,557
Payable in relation to A loan notes at 31 December 2019	**5,557**	75,023
Directors' interest on loan notes		
Payable in relation to B loan notes at 1 January 2019	**-**	8,184
B Loan notes issued in period	**-**	49
Interest accruing on B loan notes	**660**	660
Repayment of B loan notes	**-**	(13)
Payable in relation to B loan notes at 31 December 2019	**660**	8,880
Advisory fee	**1,265**	1,265

30. Key management personnel compensation

Key management is composed of the Directors. The compensation paid or payable to key management of the Group for employee services is disclosed in Note 7.

31. Post balance sheet events

The Covid-19 pandemic and the government actions to mitigate the spread of the disease are considered to be non-adjusting post balance sheet events, which do not provide more information about the conditions at the balance sheet date. The impact of these events on the Directors considerations around the going concern assumption are discussed in the Strategic Report.

32. Ultimate parent company

At 31 December 2018 the Company's immediate and ultimate parent company was Theo Topco Limited.

Theo Midco Limited is the parent company of the smallest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the consolidated financial statements can be obtained from Baines House, Midgery Court, Fulwood, Preston, PR2 9ZH.

Theo Topco Limited is the parent of the smallest and largest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the consolidated financial statements can be obtained from Baines House, Midgery Court, Fulwood, Preston, PR2 9ZH.

There is no ultimate controlling party by virtue of a majority shareholding of Theo Topco Limited, although Partners Group have de facto control of the Group due to the constraints imposed on the Group and executive directors through the investment agreement.