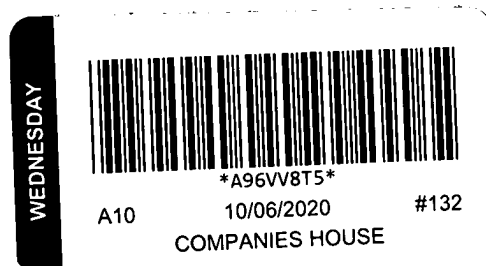


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REGISTERED NUMBER: 07882099 (England and Wales)

**Report of the Director and
Financial Statements
for the year ended 31 December 2018
for
Key Midco Limited**



Key Midco Limited

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**Key Midco Limited
Company Information**

Director:	J R H Cumming
Registered office:	Elmbrook House 18 – 19 Station Road Sunbury on Thames Surrey TW16 6SU
Registered number:	07882099 (England and Wales)
Auditor:	Deloitte LLP Statutory Auditor Hill House 1 New Street Square London United Kingdom EC4A 3HQ
Bankers:	Royal Bank of Scotland 280 Bishopsgate London United Kingdom EC2M 4RB

Key Midco limited Director's Report

The director of Key Midco Limited (the 'Company') presents their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year to 31 December 2018.

The Director's report has been prepared in accordance with the special provisions relating to small companies entitled to the small companies' exemption.

The Director of the Company is exempt from preparing a Strategic Report under the small companies' exemptions set out in Section 414B.

Principal activity

The principal activity of the Company in the period under review was that of holding company. The Company is a member of the Key Topco Limited group of companies (the 'Group'), an insurance broking group with an insurance claims and policy administration company in the UK, and with underwriting capacity available in Gibraltar.

Review of the business

The Company acts as a holding company and incurs interest costs on loan notes issued to finance investments and expects this to continue for the foreseeable future. During the year the Company issued £2.9 million of new secured investor notes to support the growth of the Group.

The results of the Company for the year ended 31 December 2018 are set out in the Statement of Comprehensive Income. The loss after tax for the financial year is £38.4 million (2017: £9.2 million), which was due to finance costs is of £11.1 million (2017: £9.0 million.) and investment impairment loss is of £27.2 million (2017: £nil).

Directors

The directors who have held office during the year to 31 December 2018 and to the date of this report are:

A D Maynard (Appointed 9 May 2018; Resigned 24 January 2020)

D J Elliott (Resigned 13 December 2018)

J R H Cumming

All the directors who are eligible will offer themselves for re-election at the forthcoming Annual General Meeting.

The Group has made qualifying third-party indemnity provisions for the benefit of directors of all Group companies which were made during the year and remain in force at the date of this report.

Dividends

No dividends have been paid in the year ended 31 December 2018 (2017: £nil).

The director does not recommend payment of a final dividend on the ordinary shares for the year ended 31 December 2018. (2017: £nil).

Post Balance Sheet Events

The decision was made at the end of 2018 to put the Group up for sale to achieve an exit for existing shareholders and to find a new shareholder with the capital and experience to support the growth ambitions of the new management team. On 24 January 2020, following regulatory approvals, the Group was acquired by Ormiston Holdco Limited, a new holding company backed by funds managed by Sun Capital Partners ("Sun Capital"). As a result of the transaction, all existing debt facilities owed to RBS and Close Brothers were repaid and existing shareholder debt written off; this has created a capital structure in the Group that is much more sustainable. The acquisition is a hugely positive step for the Group; Sun Capital will actively support the Group to achieve its goal to become the 'Go To' provider of non-standard motor insurance products and services.

Following completion of the sales process, the objective of the new shareholder during 2020 is to deliver its key strategic initiatives and return the business to profitability. A subsidiary of the Company, Key Bidco Limited, together with a guarantee from the Retail Broker subsidiaries (which is the combination of Complete Cover Group Limited and Hyperformance Limited) has also raised an additional £1 million from Close Brothers in the form a new Development Loan facility. This was agreed as part of wider renegotiation of the Group's strategic partnership with Close Brothers.

Key Midco limited Director's Report

Going Concern and Covid-19

The Director has considered the impact that Covid-19 will have on the Company, which is detailed in Note 1 of the Financial Statements. Although Covid-19 developments are fluid, the stress testing demonstrates the Company and Retail Broker's financial resilience and operating flexibility. Following the assessment of the Company's and Retail Broker's financial position and its ability to meet its obligations as and when they fall due, including the potential financial implications of the Covid-19 pandemic included in stress tests, and the wider operational consequences and ramifications of the pandemic, the Director is not aware of any material uncertainties that cast significant doubt on the Retail Broker's and Company's ability to continue as a going concern. Please see Note 1 for further details.

Accordingly, while acknowledging the current guidance on going concern, including that from the Financial Reporting Council (FRC) and its recent Covid-19 guidance, the Director continues to adopt the going concern basis in preparing the annual report and financial statements.

Principal risks and uncertainties

The Group has a risk committee that meets monthly which advises the Board on risk and compliance matters and monitors the risk appetite of the business. This committee reviews and challenges the output of the business and each division's risk maps.

The principal risks and uncertainties facing the Group are those relating to people, competition, errors and omissions and interruption to information processing capabilities.

i) Competitive risks

The nature of the current market combined with some very aggressive strategies from competitors puts significant pressure on the Group to retain existing business and to win new business. Further significant risk exists in maintaining relationships with aggregators and insurers. The Group mitigates these risks by continuing to enhance its value proposition to clients and regular and open meetings with aggregators and insurers.

ii) People risks

The willingness of competitors to offer key staff higher remuneration and benefits packages continues to be a risk to the Group's ability to attract and retain key people. Periodic benchmarking of salaries is carried out to ensure the Group remains competitive.

iii) Errors and omissions

The Group is subject to claims and litigation in the ordinary course of its business, principally in connection with the Group's insurance broking business. The Group mitigates this risk through regular review of the Group processes and, ultimately, the taking out of the appropriate insurance cover.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Company are interest rate risk, currency risk, credit risk and liquidity/cash flow risk.

i) Liquidity/cash flow risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations when due. The Company carefully monitors levels of cash to ensure compliance with banking covenants. The director of the Company use forecasts and budgets to monitor and control cash flows and working capital requirements.

ii) Interest rate risk

The Group has both cash deposits and holdings in government and corporate bonds in its portfolio. The primary market risk in the investment portfolio is interest rate risk, namely the fair value sensitivity of a fixed-income security or cash to changes in interest rates. The interest rate risk is managed through active investment portfolio management to ensure a prudent mix of fixed income investments with a varied maturity schedule. This is in line with guidelines issued by the ultimate parent company.

iii) Currency risk

The Company is exposed to currency risk in respect of revenue as well as assets and liabilities denominated in currencies other than pounds sterling. The Company seeks to mitigate the risk as far as possible by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

iv) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company and its subsidiaries are exposed to credit risk are amounts due from clients and insurers in respect of brokerage not yet received and cash investment holdings.

Key Midco limited
Director's Report

The use of premium credit with full recourse across the Group gives rise to potential debt through default by the clients with the premium credit provider.

The Company mitigates its credit risk for cash and investments by only depositing money or holding investments in entities with a sufficiently high credit rating. The credit rating required is that demanded by the ultimate parent company. In addition, the Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single issuer, and the level of investment in a non-sovereign issue.

The Company mitigates its credit risk in respect of funded items by closely monitoring the debts created.

Brokerage and fee debtors are also monitored closely with a view to minimising the collection period of these items, particularly given the current economic climate.

Political donations

During the year no donations were made to political parties (2017: £nil).

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

On behalf of the board:



J R H Cumming - Director
29 May 2020

Key Midco Limited
Statement of Director's responsibilities

Statement of Director's responsibilities

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the director must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The director is 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.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Key Midco Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the director's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

We have nothing to report in respect of these matters.

Other information

The director is 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 respect of these matters.

Responsibilities of directors

As explained more fully in the director's responsibilities statement, the director is 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 director determines 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 director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2018

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the director's report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the director was not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

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.



Mark McIlquham ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, England
29 May 2020

Key Midco Limited
Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(85)	(141)
Impairment of investments	7	(27,210)	-
Operating loss		(27,295)	(141)
Finance costs	5	(11,157)	(9,035)
Profit/(loss) before tax	4	(38,452)	(9,176)
Tax on profit or loss	6	-	-
Profit/(loss) after tax and profit/(loss) for the financial year		(38,452)	(9,176)
Other comprehensive income			
Deferred tax movement		-	-
Profit/(loss) and total comprehensive income for the year		(38,452)	(9,176)

Key Midco Limited
Balance Sheet
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Investments	7	4,680	31,890
Current assets			
Debtors	8	7,818	4,455
Creditors			
Amounts falling due within one year	9	(34,174)	(27,576)
Net current liabilities		<u>(26,356)</u>	<u>(23,121)</u>
Total assets less current liabilities		<u>(21,676)</u>	<u>8,769</u>
Creditors			
Amounts falling due after more than one year	10	(57,507)	(49,500)
Net liabilities		<u>(79,183)</u>	<u>(40,731)</u>
Capital and reserves			
Called up share capital	12	9	9
Share premium account		866	866
Profit and loss account		(83,058)	(41,606)
Shareholders' funds deficit		<u>(79,183)</u>	<u>(40,731)</u>

The financial statements of Key Midco Limited, company registered number 07882099, were approved by the Director and authorised for issue on 29 May 2020.



J R H Cumming - Director
29 May 2020

Key Midco Limited
Statement of changes in Equity
for the year ended 31 December 2018

	Note	Called-up share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 January 2017		9	866	(32,430)	(31,555)
Profit/(loss) and total comprehensive income for the year		-	-	(9,176)	(9,176)
At 31 December 2017		9	866	(41,606)	(40,731)
Profit/(loss) and total comprehensive income for the year		-	-	(38,452)	(38,452)
At 31 December 2018	12	9	866	(83,058)	(79,183)

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2018

1. Accounting policies

The principal accounting policies adopted by the Company are set out below. The director has reviewed the accounting policies and concluded that they are appropriate. They have been applied consistently throughout the year and to the preceding year in the preparation of the financial statements.

General information and basis of accounting

Key Midco Limited is a company incorporated in England and Wales under the Companies Act. The Company is a private Company limited by shares and is registered in England. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the director's report on pages 2 to 4.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The company is not required to prepare consolidated accounts as the company itself is a subsidiary of another group company, all of the the parent's subsidiaries are permitted to be excluded from consolidation under the 2006 Act.

Key Midco Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Key Midco Limited is consolidated in the financial statements of its ultimate parent, Key Topco Ltd, copies of which may be obtained at Elmbrook House, 18–19 Station Road, Sunbury-on-Thames, Surrey, TW16 6SU. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the business review which forms part of the Strategic Report. The Strategic and Director's reports also describe the financial position of the Company, its cash flows, liquidity risk and the Company's objectives. Policies and process for managing its capital, its financial risk, management objectives, exposure to credit and liquidity risk are in place.

The Director considers the going concern basis to be appropriate following their assessment of the Company's and its Retail Broker subsidiaries financial position and its ability to meet its obligations as and when they fall due. In making the going concern assessment the Director has taken into account the following:

- The 2018 loss before tax of £(38.5) million, which increased the net liabilities position to £(79.2) million. The Director notes that this loss has no cash impact, as £(38.4) million of the loss related to non-cash items of impairment and finance costs.
- To the extent the Company has obligations to settle in cash over the forecast period, it meets its day to day working capital requirements from corporate cash balances generated from its Retail Broking subsidiaries.
- The current capital structure and liquidity of the Company and its Retail Broker subsidiaries and its base case and stressed cash flow forecasts over the calendar years 2020 and 2021.
- The principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control.

Key assumptions that the Director has made in preparing the base case cash flow forecasts are that:

- The recently agreed £1 million Development facility with Close Brothers Limited is fully drawn within the Retail Broker.
- The Retail Broker will rely on the use of some of the Covid-19 business support measures announced by the Government.
- Client retention and renewal rates are expected to be robust, despite the likely economic downturn.

Key stress scenarios that the Director has considered include cumulative stresses to the base plan, being:

- A sustained 20% shortfall in the Retail Broker base case projected income in 2020, driven by a deterioration in new business sales and increases in cancellation. The impact to income in 2021 from lower renewals driven by lower new business sales in 2020 is appropriately considered.
- Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration.
- Further, we have considered the capital coverage of the Retail Broker's material risk carriers and consider that they have sufficient capital to be able to sustain the volumes in the base case and stressed case scenarios.

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2018

Our stress testing further indicates that Retail Broker revenues would need to decline by up to 26% compared to base case to reach Retail Broker liquidity limits. Other mitigations which may be possible but have not been included in the above analysis include seeking additional debt finance, shareholder support and further incremental and more prolonged cost reductions.

The Director has also considered the wider operational consequences and ramifications of the Covid-19 pandemic. Business Continuity Plans are in place across each of the Retail Broker's operating segments, with measures to manage employee home working for our entire employee base. These are working effectively. Leadership teams and working groups led by senior managers are in place to support operational resilience and taking common sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach daily in line with latest global developments and government guidance.

Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. The Retail Broker operates in a mandatory class of business and is not materially exposed to a single carrier, customer or market segment. Although Covid-19 developments are fluid, the stress testing demonstrates the Group's financial resilience and operating flexibility. Following the assessment of the Retail Broker's and Company's financial position and its ability to meet its obligations as and when they fall due, including the potential financial implications of the Covid-19 pandemic included in stress tests, and the wider operational consequences and ramifications of the pandemic, the Director is not aware of any material uncertainties that cast significant doubt on the Retail Broker's and Company's ability to continue as a going concern.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Current tax assets and liabilities are offset only where there is a legally enforceable right to set off the amounts and the Company intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred taxation

Deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date and where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of items of gains and losses in taxation assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are only offset when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not discounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or at realisable rates were covered by forward exchange contracts. Foreign currency transactions are translated into sterling at the rates of exchange at the dates the transactions occurred.

All gains and losses arising from foreign exchange transactions are recognised in the profit and loss account.

Interest and investment income

Interest income is recognised on an accrual basis. Dividends from associated undertakings are accounted for when declared.

Investment in subsidiaries

Investment in subsidiaries, are measured at cost less impairment.

Impairment

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2018

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit and loss as described below.

i) Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that have occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a carrying amount higher than the carrying value had no impairment been recognised.

ii) Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price, including transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value, which is normally excluding transaction costs, unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- a) The contractual return to the holder is (i) a fixed amount; or (ii) a positive fixed rate of return or a positive variable rate; or a combination of a positive or a negative fixed rate and a positive variable rate.
- b) The contract may provide for repayments of the principal or return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2018

- f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit and loss.

Commitments to make and receive loans which meet those conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when, a) the contractual rights to the cash flows from the financial assets expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise the ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged cancelled or expires.

Errors and omissions and other claims

The Company is subject to claims and litigation in the ordinary course of its business, principally in connection with the Company's insurance broking business. The Company mitigates this risk through regular review of its processes and, ultimately, the taking out of the appropriate insurance cover.

2. Critical judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 the revision and future periods if the revision affects both current and future periods.

The Company is a holding company only with no trading activities, the director considers the business is not sensitive to Brexit, and exposed to minimum adverse impact of the no deal scenario.

The director confirms no concerning of future uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Key sources of estimation uncertainty

Impairment of fixed asset investments

Following the successful completion of the change of ownership on 24 January 2020, the Company has re-assessed its valuation to align with the sale price. In accordance with section 27 of FRS102, the difference between the carrying amount (adjusted net asset value + goodwill carrying amount) and the recoverable amount (fair value less costs to sell) has been impaired. As the company carries nil goodwill, there is no goodwill impairment loss, but £27.2m impairment loss on investment have been recognised. The carrying amount of investment at the balance sheet date is £4.6 million (2017: £31.8 million).

3. Staff costs

There were no staff costs for the year ended 31 December 2018 (2017: £nil). Services that were required were provided by employees of Complete Cover Group Ltd., a subsidiary undertaking. It is not practical to allocate the cost of their services to the Company.

4. Loss on ordinary activities before taxation

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Information regarding directors, employees and audit fees

The director, JRH Cumming is an employee of another Group subsidiary, Complete Cover Group Limited and was remunerated by that company for his services to the Group as a whole and received no remuneration for his services as a director of this Company. The directors, A D Maynard and D J Elliott received no remuneration for his services as a director of this Company. Director's fees and expenses were payable to Darwin Private Equity LLP for services provided by and A D Maynard and D J Elliott of £66,405. (2017: £70,773). The Company had no other employees during the current year and prior period.

The audit fee of £7,200 (2017: £2,781) and annual filing fees were borne by a fellow subsidiary undertaking (Key Bidco Ltd) during the year. Fees payable to the company's auditor for other services provided to this Company is of £8,090 in the current year (2017: £16,608).

5. Finance costs

	2018 £000	2017 £000
Interest payable and similar charges		
Loan notes interest payable	11,591	9,305
	<u>11,591</u>	<u>9,305</u>
Interest receivable from group companies	(434)	270
	<u>(434)</u>	<u>270</u>
Finance costs	11,157	9,035
	<u>11,157</u>	<u>9,035</u>

6. Taxation

The tax charge on the loss on ordinary activities for the year was as follows:

	2018 £000	2017 £000
Current tax		
UK corporation tax	-	-
	<u>-</u>	<u>-</u>
Tax rate reconciliation		
The difference between the total tax charge shown above and the amount calculated by applying the standard rate of corporation tax in the UK to the loss before tax is as follows:		
Loss on ordinary activities before tax	(38,452)	(9,176)
Tax credit at standard UK corporation tax rate of 19.0% (2017: 19.25%)	(7,306)	(1,766)
Effect of:		
Expenses not deductible for tax purposes	7,372	1,791
Movement in unrecognised deferred tax	(66)	(25)
Total tax charge for the year	<u>-</u>	<u>-</u>

The UK corporation tax expense within these financial statements has been provided for at the rate of 19.0% (2017: 19.25%). Finance Act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will now not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantially enacted by the balance sheet date, deferred tax balances as at 31 December 2018 continue to be measured at 17%.

There is no expiry date on timing differences, unused tax losses or tax credits.

7. Fixed asset investments

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Subsidiary undertakings

	£000
Cost	
At 1 January 2018 and 31 December 2018	36,695
Provision for impairment	£000
At 1 January 2018	4,805
Impairment	27,210
At 31 December 2018	32,015
Carrying value 31 December 2018	4,680
Carrying value 31 December 2017	31,890

Name	Country of incorporation	Principal activity	Share holding	% owned	
				2018	2017
Key Bidco Limited	England & Wales	Holding company	Ordinary	100	100
Complete Cover Group Limited ¹	England & Wales	Insurance intermediary	Ordinary	100	100
Hyperformance Limited ¹	England & Wales	Insurance intermediary	Ordinary	100	100
Mulsanne Holdings (Gibraltar) Limited ²	Gibraltar	Holding company	Ordinary	100	100
Mulsanne Insurance Company Limited ⁴	Gibraltar	Insurance underwriter	Ordinary	100	100
Insure your motor Limited ³	England & Wales	Dormant	Ordinary	100	100

The Company directly owns all the issued ordinary share capital of Key Bidco Limited. All other subsidiary undertakings are indirectly wholly owned through other group undertakings as noted below.

¹ Indirectly owned through Key Bidco Limited

² Indirectly owned through Complete Cover Group Limited.

³ Indirectly owned through Hyperformance Limited

⁴ Indirectly owned through Mulsanne Holdings (Gibraltar) Limited.

The registered office for companies incorporated in England and Wales is Elmbrook House, 18-19 Station Road, Sunbury-on-Thames, Surrey TW16 6SU.

The registered office for companies incorporated in Gibraltar is Grand Ocean Plaza, Ocean Village, Gibraltar.

Subsidiary undertakings have not been consolidated by the Company as permitted by s.400 of the Companies Act 2006 as they are consolidated in the financial statements of Key Topco Limited.

8. Debtors

	2018	2017
	£000	£000
Amount owed by fellow group undertaking	7,818	4,455
	7,818	4,455

Additional financing investment in the year to subsidiary (Complete Cover Group Limited) is £2.9m. Amounts owed by fellow group undertaking arises from unsecured inter-group financing on which interest is receivable at a variable rate of base rate + 6%. Balances are recoverable on demand. At year-end 2018 there are £5.0m investment on subsidiary Complete Cover Group Limited, and £2.8m on subsidiary Key Midco Limited

9. Creditors: Amounts falling due within one year

2018 2017

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	£000	£000
Loan interest on unsecured loan notes	34,078	27,500
Accruals and deferred income	96	76
	<u>34,174</u>	<u>27,576</u>

Loan interest on unsecured loan with investors and managers were written off following the completion of change of ownership on 24 January 2020 as per the terms in the sales agreement.

10. Creditors: Amounts falling due after more than one year

	2018 £000	2017 £000
Secured loan notes (note 11)	9,671	6,676
Unsecured loan notes (note 11)	38,714	37,624
Loan interest on secured loan notes	9,122	5,200
	<u>57,507</u>	<u>49,500</u>

11. Loans

An analysis of the maturity of loans is given below:	2018 £000	2017 £000
Amounts falling due in more than one and less than five years:		
Repayable otherwise than by instalments		
Investor 12.5% unsecured loan notes 2022	23,003	21,913
Vendor 10% unsecured loan notes 2022	6,000	6,000
Management 12.5% unsecured loan notes 2022	9,711	9,711
New investor 25% secured loan notes 2022	5,515	2,000
New manager 25% secured loan notes 2022	5,936	2,221
New investor 50% secured loan notes 2022	7,342	2,455
	<u>57,507</u>	<u>44,300</u>

Both New investor 25% and 50% secured loan notes 2022 and New manager 25% secured loan note 2022 were secured by cross guarantees given by the Company and its subsidiaries, ranking in all respects after the existing senior secured debt in the Group. The senior secured debt was held in Key Bidco Limited (a direct subsidiary) and owed to The Royal Bank of Scotland plc and to Close Brothers Limited. The secured debt owed to RBS ranked in all aspect ahead of the senior debt owed to Close Brothers Limited.

Both Investor 12.5% unsecured loan notes 2022 and New investor 25% secured loan notes 2022 were listed on the International Stock Exchange (TISE). Currently no market exists for the notes. The New investor 50% secured loan notes 2022 were submitted for listing during 2018.

On 21 December 2018, the Company issued PIK Note 5 for £1,089,932, constituting Investor 12.5% unsecured loan notes 2022, in satisfaction of outstanding interest.

All the above loans plus interests were written off following the completion of change of ownership on 24 January 2020 as per the terms in the sales agreement. The Company confirms nil loan and loan interest liabilities to New investor and New manager after 24 January 2020.

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12. Called up share capital

Allotted, called-up and fully paid

Number	Description	2018 £000	2017 £000
875,001	Ordinary shares of £0.01p each	9	9
		<u>9</u>	<u>9</u>

The Company has one class of ordinary shares which carry no right to fixed income.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represent cumulative profits or losses, net of dividends paid and other adjustments.

13. Ultimate and immediate parent company

Following the successful completion of the change of the ownership on 24 January 2020, the director considers the ultimate controlling party of Key Topco Limited to be Ormiston Holdco Limited, a limited company registered in Jersey. Prior to the sale completion, the ultimate controlling party was Darwin Private Equity LLP, a limited liability partnership registered in England and Wales.

The largest and smallest group in which the results of Key Midco Limited are consolidated is that headed by Key Topco Limited. Copies of the consolidated financial statements of Key Topco Limited may be obtained from Elmbrook House, 18-19 Station Road, Sunbury-on-Thames, Surrey TW16 6SU.

14. Related party disclosures

The Company has taken advantage of exemption, under the terms of Financial Reporting Standard 102, section 33.1A, not to disclose related party transactions with wholly owned subsidiaries within the Group.

In the period Key Midco Limited has made payments to Darwin Private Equity LLP for Directors' fees and expenses of £66,405 (2017: £70,773), in respect of the services provided by D J Elliott and A D Maynard.

15. Contingent liabilities and guarantees

The Royal Bank of Scotland plc had a fixed and floating charge over all property and assets of the subsidiary companies, Complete Cover Group Limited and Hyperformance Limited. Secured borrowings at 31 December 2018 totaled £2,514,826 (2017: £2,114,826).

Close Brothers Limited trading as Close Brothers Premium Finance had a fixed and floating charge over all property and assets of Key Midco Limited and its subsidiary companies, Key Bidco Limited, Complete Cover Group Limited and Hyperformance Limited. This charge was subordinate to the fixed and floating charge held by The Royal Bank of Scotland. Secured borrowings at 31 December 2018 amounted to £2,461,453 (2017: £2,585,744).

The Company has provided a counter-indemnity to Darwin Private Equity 1 LP and Darwin Private Equity Friends and Family Fund LP, who had provided a guarantee to Close Brothers Limited for £2 million relating to the Close Brothers Limited Secured Borrowings.

All the above loans were settled on 24 January 2020 by the Group ultimate controlling party, Ormiston Holdco Limited. The Company confirms nil loan and loan interest liabilities to the Royal Bank of Scotland and Close Brothers Limited after 24 January 2020.

16. Subsequent events – Loan notes issue

There have been New investor 50% loan notes of £1,350,000 issued in 2019 by the Company.

	2019 £000
New investor 50% loan notes:	
29 January 2019	550
26 June 2019	500
26 July 2019	300
	<u>1,350</u>

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On 24th January 2020, following the receipt of the necessary regulatory approvals, the Key Topco Group, of which the Company is a subsidiary, was acquired by a new holding company, Ormiston Holdco Limited from Darwin Private Equity. All new investor loans were written off on 24 January 2020 following the completion of the sale process, and all external, secured loans repaid.

On 6th May 2020, Key Bidco Limited, a subsidiary of the Company, has also raised an additional £1 million from Close Brothers in the form of a new Development Loan facility. This was agreed as part of wider renegotiation of the Group's strategic partnership with Close Brothers. A guarantee for the facility has been provided by Complete Cover Group Limited and Hyperformance Limited.

The Director has considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (Covid-19) and have treated this as a non-adjusting subsequent event in these financial statements (see Director's report and Note 1 Basis of preparation for further details in relation to potential expected impact from scenarios). The Director notes that whilst a full range of potential expected scenarios have been considered, the full impact of Covid-19 cannot yet be estimated.

Following the write off of the loans and accrued interest in January 2020, the Director notes the Company is in an unaudited overall net asset position of £13.3 million at the end of March 2020 (2018: £(79.1) million).