Mercia Fund Management Limited

Annual Report and Financial Statements

For the year ended 31 March 2020

Registered number: 06973399

Mercia Fund Management Limited

Annual Report and Financial Statements 2020

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Mercia Fund Management Limited

Directors, Secretary and Advisers

Directors
Dr Mark Andrew Payton
Martin James Glanfield
Julian George Viggars
Peter Michael Dines
Dr Paul Antony David Mattick
Charles Stephen Winward

Secretary
Sarah-Louise Anne Thawley

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17 High Street
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Deloitte LLP
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Mercia Fund Management Limited

Strategic Report

The Directors present their Annual Report and the audited financial statements of Mercia Fund Management Limited for the year ended 31 March 2020. The comparative figures cover the year ended 31 March 2019.

The Directors, in preparing this Strategic Report, have complied with section 414C of the Companies Act 2006.

Principal activities and review of the business

The principal activity of Mercia Fund Management Limited ('the Company') during the year was proactive fund management.

On 23 December 2019 the Company completed the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM"), which consisted of the acquisition of three fund management contracts with Northern Venture Trust PLC, Northern 2 VCT PLC and Northern 3 VCT PLC ('the Northern VCTs') and the transfer of NVM's VCT investment team, for a total maximum consideration of £25,000,000.

The initial consideration of £16,600,000 was paid to NVM on completion of the acquisition, comprising £12,400,000 in cash and £4,200,000 in Mercia Asset Management PLC Ordinary shares, funded by the allotment of 12,400,000 Mercia Fund Management Limited Ordinary shares to its parent company, Mercia Asset Management PLC, for cash and a further allotment of 4,200,000 Mercia Fund Management Limited Ordinary shares to Mercia Asset Management PLC, in consideration for the parent company issuing shares to NVM. The deferred consideration of up to £8,400,000 comprises up to £6,300,000 in cash, payable in three equal instalments on the first, second and third anniversaries of completion of the acquisition, provided that no termination notice has been served by any of the Northern VCTs before each respective anniversary payment date and, subject to certain other deferred conditions being satisfied at the third anniversary of completion, the Company procuring the issue of up to £2,100,000 worth of Mercia Asset Management PLC Ordinary shares to NVM, to be determined based on the average of the daily closing mid-market price for a Mercia Asset Management PLC Ordinary share, for each of the five days immediately preceding the date of issue. Further details of the acquisition are given in notes 1, 2, 10, 11 and 18 to the financial statements.

As shown in the Company's profit and loss account on page 12, revenues have increased by 94% (2019: 12%) in the year to £4,623,891 (2019: £2,383,467). The increase in revenues was largely due to the post-acquisition contribution of the acquired VCT fund management business plus the continued growth in management fees generated from additional funds raised and invested in the year. The profit for the year was £1,238,160 (2019: £287,907).

The balance sheet on page 14 shows the Company's financial position at the year end.

Future developments

The Company will continue to execute its strategic plan to raise additional third-party funds each year, and will invest in the newly acquired VCT fund management business, thus securing its future revenue streams.

Key performance indicators

Further analysis of the development of the business during the year is included in the Annual Report and financial statements of the Company's parent, Mercia Asset Management PLC ('the Group', 'Mercia'). The Company's Directors are of the opinion that, given the straightforward nature of the business, further analysis using key performance indicators is not necessary for an understanding of the development, performance and position of the business.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties although these are not considered to be any more severe than for comparable companies adopting similar strategies. Both the Company's and the Group's Board regularly reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified. Further discussion of these risks and uncertainties, in the context of Mercia Asset Management PLC as a whole and including an assessment of the potential impact on the Group of the outbreak and continuing spread of the novel coronavirus ("COVID-19") and the United Kingdom's exit from the European Union without a trade deal, is provided on pages 52 to 55 of the Group's Annual Report, which does not form part of this report.

Events after the balance sheet date

The impact of the COVID-19 pandemic is continuing to evolve. The Company is continually monitoring the development of COVID-19 and the current and future impacts it will have on the business. The actions to mitigate these risks have been noted in the principal risks and uncertainties section on pages 52 to 55 of the Group's Annual Report. As discussed in the Strategic Report, at this time, the Directors are not able to reliably estimate the length and severity of the COVID-19 public health crisis and, as such, cannot quantify its impact on the financial results, liquidity and capital resources of the Group and its operations in future periods.

On 29 June 2020 9,000,000 new Ordinary shares of £1 each were allotted to the Company's parent, Mercia Asset Management PLC, and were fully paid up.

There have been no other material events since the balance sheet date.

Approval

Approved by the Board on 18 December 2020 and signed on its behalf by:

Dr Mark Payton
Director

Forward House
17 High Street
Henley-in-Arden
Warwickshire
B95 5AA

Mercia Fund Management Limited

Directors' Report

Results and dividends

The profit for the year was £1,238,160 (2019: £287,907). A dividend of £2,000,000 was paid to the Company's parent, Mercia Asset Management PLC, during the year (2019: £nil).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Dr Mark Andrew Payton
Martin James Glanfield
Julian George Viggars
Peter Michael Dines
Dr Paul Antony David Mattick
Charles Stephen Winward (appointed on 10 January 2020)

Directors' indemnities

The Company's parent, Mercia Asset Management PLC, has made qualifying third-party indemnity provisions for the benefit of the Company's Directors. These were in force during the financial year and remained in force at the date of approval of the financial statements.

Financial instruments

The Company's financial instruments comprise cash and various other items, such as trade debtors and trade creditors, which arise directly from its operations. The main purpose of these financial instruments is to fund the Company's operations as well as to efficiently manage working capital and liquidity.

It is, and has been throughout the year under review, the Company's policy not to enter into derivative transactions and no trading in financial instruments has been undertaken during the year. The Company therefore faces few risks associated with financial instruments.

Going concern

On 30 January 2020, the World Health Organisation declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. COVID-19 presents the biggest risk to the global economy and to individual companies since the 2008 financial crisis and has had a severe impact on economic growth forecasts worldwide. The impacts of COVID-19 are not yet all apparent and the position will remain fluid until the length and extent of the crisis become evident. Clearly, however, not all industries or companies will be impacted to the same degree.

The Company continues to monitor and follow closely the information released from the UK Government and the Directors continue to monitor the impact that the COVID-19 pandemic has on the Company and those companies in its managed funds. The full extent to which the COVID-19 pandemic may impact the Company's future results, operations and liquidity is uncertain.

The Directors have made an assessment of going concern, taking into account both the Company's current performance and its outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of the financial statements. As part of this assessment the Directors considered:

- an analysis of the adequacy of the Company's liquidity, solvency and regulatory capital position. The analysis used has modelled a number of adverse scenarios to assess the potential impact that COVID-19 may have on the Company's operations and funds under management. The Company and Group as a whole manages and monitors liquidity regularly ensuring it is adequate and sufficient and this is supported by its monitoring of investments, operating expenses and receipt of cash income. As at 31 March 2020 liquidity remained strong with unrestricted cash of £2,559,557 (2019: £2,293,046), being cash at bank and in hand of £3,026,583 (2019: £2,921,704) less cash held on behalf of third-party EIS investors, pending investment.
- the operational resilience of the Company's and the Group's critical functions, which includes the wellbeing of its staff and the resilience of its IT systems. COVID-19 has emphasised the importance of the Company's and its managed funds' companies' focus on keeping employees safe, motivated and able to continue to fulfil their roles effectively where possible; and
- an assessment of the Company's supplier base, considering any single points of failure and contingency plans, should suppliers be deemed at risk.

Based on the overall strength of the Company's balance sheet, together with its forecast future operating and fund management performance, and having considered the impact of COVID-19 on the Company's operations, the Directors have a reasonable expectation that the Company is well placed to manage business risks in the current economic environment and has adequate financial resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Accordingly the Directors have continued to adopt the going concern basis in preparing these financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies on page 16.

Statement of disclosure of information to auditor

In the case of each of the persons who are Directors at the time when the report is approved under section 418 (1) to (4) of the Companies Act 2006, the following applies:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Group's forthcoming Annual General Meeting.

Approved by the Board on 18 December 2020 and signed on its behalf by:

Dr Mark Payton
Director

Forward House
17 High Street
Henley-in-Arden
Warwickshire
B95 5AA

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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.

Independent Auditor's Report to the Members of Mercia Fund Management Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Mercia Fund Management Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (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.

Independent Auditor's Report to the Members of Mercia Fund Management Limited (continued)

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in 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 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 Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report to the Members of Mercia Fund Management Limited (continued)

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

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 Strategic Report or 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 Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Mercia Fund Management Limited (continued)

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.

Jonathan Dodworth

Jonathan Dodworth (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

18 December 2020

Mercia Fund Management Limited

Profit and Loss Account
For the year ended 31 March 2020

	Note	2020 £	2019 £
Revenue	3	**4,623,891**	2,383,467
Administrative expenses		**(2,734,385)**	(2,095,560)
Amortisation of intangible assets	11	**(552,275)**	-
Operating profit before exceptional item		**1,337,231**	287,907
Exceptional item	4	**(190,732)**	-
Operating profit		**1,146,499**	287,907
Finance income		**22**	-
Finance costs	17	**(13,401)**	-
Profit before taxation	5	**1,133,120**	287,907
Taxation	9	**105,040**	-
Profit and total comprehensive income for the financial year		**1,238,160**	287,907

All results derive from continuing operations.

The notes on pages 16 to 35 are an integral part of these financial statements.

Mercia Fund Management Limited

Statement of Other Comprehensive Income
For the year ended 31 March 2020

	2020 £	2019 £
Profit for the year	**1,238,160**	287,907
Total comprehensive income for the year	**1,238,160**	287,907
Attributable to the owners of the Company	**1,238,160**	287,907

Mercia Fund Management Limited

Balance Sheet
As at 31 March 2020

	Note	2020 £	2019 £
Non-current assets			
Goodwill	10	**6,313,778**	-
Intangible assets	11	**19,778,807**	-
Property, plant and equipment	12	**-**	756
Right-of-use asset	13	**325,323**	-
Investments	14	**114**	114
		26,418,022	870
Current assets			
Trade and other receivables	15	**629,608**	156,794
Cash at bank and in hand		**3,026,583**	2,921,704
		3,656,191	3,078,498
Total assets		**30,074,213**	3,079,368
Current liabilities			
Trade and other payables	16	**(2,587,573)**	(1,692,263)
Lease liability	17	**(63,875)**	-
Deferred consideration	18	**(1,735,893)**	-
		(4,387,341)	(1,692,263)
Non-current liabilities			
Lease liability	17	**(257,679)**	-
Deferred consideration	18	**(4,446,062)**	-
Deferred taxation	19	**(3,757,866)**	-
		(8,461,607)	(1,692,263)
Total liabilities		**(12,848,948)**	(1,692,263)
Net assets		**17,225,265**	1,387,105
Capital and reserves			
Issued share capital	20	**16,862,914**	262,914
Capital redemption reserve	21	**200,422**	200,422
Retained earnings	22	**161,929**	923,769
Shareholders' funds		**17,225,265**	1,387,105

The notes on pages 16 to 35 are an integral part of these financial statements.

The financial statements of Mercia Fund Management Limited, registered number 06973399, on pages 12 to 35 were approved by the Board of Directors and authorised for issue on 18 December 2020. They were signed on its behalf by:

Dr Mark Payton
Director

Martin Glanfield
Director

Mercia Fund Management Limited

Statement of Changes in Equity
For the year ended 31 March 2020

	Issued share capital £ (note 20)	Capital redemption reserve £ (note 21)	Retained earnings £ (note 22)	Total £
As at 1 April 2018	459,350	3,986	832,298	1,295,634
Total comprehensive income for the year	-	-	287,907	287,907
Redemption of "A" Preference shares	(196,436)	196,436	(196,436)	(196,436)
As at 31 March 2019	262,914	200,422	923,769	1,387,105
Total comprehensive income for the year	-	-	1,238,160	1,238,160
Issue of Ordinary share capital	16,600,000	-	-	16,600,000
Dividends paid	-	-	(2,000,000)	(2,000,000)
As at 31 March 2020	**16,862,914**	**200,422**	**161,929**	**17,225,265**

1. Accounting policies

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

General information

Mercia Fund Management Limited ('the Company') is a private limited company incorporated and registered in England and Wales, United Kingdom with registered number 06973399. 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 Strategic Report on page 2.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2020, the Company's accounting framework has been that of Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") as issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 as issued by the Financial Reporting Council and the requirements of the Companies Act 2006.

The financial statements of the Company have been prepared on the going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss as required by International Financial Reporting Standard ("IFRS") 9 'Financial Instruments' and explained further in the accounting policies below.

These financial statements are those of the standalone Company. The Company is exempt from the preparation of consolidated financial statements, because it is included in the Group accounts of Mercia Asset Management PLC, details of which are set out in note 26 to these financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the Group accounts of Mercia Asset Management PLC, which are available to the public and can be obtained as set out in note 26 to these financial statements.

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 Strategic Report on page 2 and the Directors' Report on page 4, which describe the financial position of the Company, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments.

The Directors have made an assessment of going concern, taking into account both the Company's current performance and its outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

1. Accounting policies (continued)

The Directors, having assessed the Company's forecasts and projections, have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements. Accordingly the Directors continue to adopt the going concern basis of accounting in preparing the Company's Annual Report and financial statements.

New standards, interpretations and amendments effective in the current financial year

The following new standards became effective in the current financial year:

IFRS 16, 'Leases' - explained in more detail below

Amendments to IFRS 3, 'Business Combinations'

Amendments to IFRS 9, 'Financial Instruments'

Amendments to IAS 12, 'Income Taxes'

Amendments to IAS 19, 'Employee Benefits'

Amendments to IAS 23, 'Borrowing Costs'

Amendments to IAS 28, 'Investments in Associates and Joint Ventures'

Annual Improvements to IFRS Standards 2015-2017 Cycle

There are no other IFRSs or IFRIC interpretations that are effective that would be expected to have a material impact on the Company.

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. It replaces IAS 17 'Leases' and introduces new or amended requirements with respect to lease accounting.

It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
- does not require restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or changed before 1 January 2019.

1. Accounting policies (continued)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company carried out an implementation project. The outcome of the project was that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on lessee accounting

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Payments under operating leases were recognised in the Company's profit and loss account on a straight-line basis over the term of the lease.

Applying IFRS 16, for all leases except as noted below, the Company:

- recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments, with the right-of-use assets adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16: C8(b)(ii); and
- recognises depreciation of right-of-use assets and interest on lease liabilities in the profit and loss account.

Lease incentives (eg rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low value assets (which includes portable electronic devices, small items of office furniture and fixed telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is included within 'other administrative expenses' in profit or loss.

1. Accounting policies (continued)

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has adjusted the right-of-use assets at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the balance sheet immediately before the date of initial application as an alternative to performing an impairment review.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of VAT. All revenue from services is generated within the United Kingdom.

Revenue from services comprises:

Fund management fees

Fund management fees are generally earned as a fixed percentage of funds under management and are recognised over the contractual period for which the services are provided, as performance criteria are met. Cash receipts in relation to revenues earned are generally received shortly after the start of the relevant invoicing period.

Initial management fees

Initial management fees are generally earned as a fixed percentage of the amounts invested in recognition of the work involved in each investment round, are one-off payments made by the investee company and are recognised when the performance obligation of providing those services is satisfied at a point in time, being upon completion of the investment. Cash receipts in relation to revenues earned are generally received shortly after completion of the relevant investment.

Portfolio directors' fees

Portfolio directors' fees are earned either as a percentage of the amounts invested by the funds, or as a fixed amount. These are usually annual fees, typically charged quarterly in advance to the investee company. They are distinct and separable from annual fund management fees and initial management fees.

1. Accounting policies (continued)

Amounts invoiced are recorded as deferred income, included in current liabilities and then amortised in the profit and loss account over the contractual period for which the services are provided, as performance criteria are met. Cash receipts in relation to revenues earned are generally received shortly after the start of the relevant invoicing period.

Exceptional items

The Company classifies items of income and expenditure as exceptional when, in the opinion of the Directors, the nature of the item or its size is likely to be material, so as to assist the reader of the financial statements to better understand the results of the operations of the Company. Such items are by their nature not expected to recur as part of the normal operation of the business and are shown separately on the face of the profit and loss account.

Leases

A lease is defined as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. All operating leases in excess of one year, where the Company is the lessee, are included on the Company's balance sheet and recognised as a right-of-use asset and a related lease liability representing the obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Subsequently, the right-of-use asset is depreciated using the straight- line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. The right-of-use assets are reviewed annually for impairment in accordance with IAS 36, 'Impairment of Assets'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Subsequently the lease liability decreases by the lease payments made, offset by interest on the liability, and may be remeasured to reflect any reassessment of expected payments or to reflect any lease modifications.

Short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes portable electronic devices, small items of office furniture and fixed telephones) are expensed on a straight-line basis over the term of the lease and presented within 'other administrative expenses' in profit or loss.

Retirement benefit costs

Payments to defined contribution personal pension plans are recognised as an expense when employees have rendered a service entitling them to the contributions. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1. **Accounting policies (continued)**

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current or deferred tax arises from the initial accounting of a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities, in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is not amortised but is reviewed annually for impairment in accordance with IAS 36, 'Impairment of Assets'.

Intangible assets

Identifiable intangible assets are recognised when the Company controls the assets, it is probable that future economic benefits attributable to the assets will flow to the Company and the fair value of the assets can be measured reliably.

1. Accounting policies (continued)

Intangible assets represent contractual arrangements in respect of the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP in December 2019. At the date of acquisition the fair value of the fund management contracts was calculated and subsequently the assets are held at amortised cost. The fair value of the intangible assets is being amortised on a straight-line basis over the expected useful life of the fund management contracts.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their expected useful lives, using the straight-line method, on the following basis:

Office equipment	33%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Investments

Investments are stated at cost less provision for any impairment losses.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1 above, 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 Directors have made the following judgements and estimates, which have had the most significant effect on the carrying amounts of the assets and liabilities in these financial statements.

Accounting for the acquisition of the VCT fund management business of NVM Private Equity LLP

On 23 December 2019 Mercia completed the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM"), which comprised the acquisition of three fund management contracts ('the Northern VCT contracts') and the transfer of NVM's VCT investment team. The fund management contracts acquired in the transaction have been fair valued at acquisition with reference to the forecast cash revenues from each contract, less the forecast costs associated with servicing those contracts, over an expected useful life of 10 years for each of the three fund management contracts, discounted at the rate of 15%. The discount applied is reflective of, inter alia, the risk profile of the contracts acquired and is considered a significant assumption. Should the discount rate be increased by 1%, the value of the fund management contracts would reduce by £800,000 with goodwill increasing by a corresponding amount. The expected useful life is considered a significant assumption. Should it be increased by one year, the value of the fund management contracts would increase by £1,300,000 with goodwill decreasing by a corresponding amount. Should the cash revenues from each contract less the costs associated with servicing those contracts increase by 1%, the value of the fund management contracts would increase by £200,000 with goodwill decreasing by a corresponding amount.

Goodwill has been recognised as the difference between the fair value of consideration paid and the fair value of the fund management contracts acquired. Further details are included in note 10 to these financial statements.

Valuation of deferred consideration

The fair value of the deferred consideration payable to NVM in respect of the acquisition of its VCT fund management business, contingent upon certain conditions being met, has been estimated with reference to the contractual obligations as at 31 March 2020. The conditions upon which payment of the deferred consideration is contingent are outlined below and included in note 18 to these financial statements.

The first condition is that no termination notice is served by any of the three Northern VCT boards before the first, second and third anniversaries of completion. There are no indications to date that notice will be given, so this has been assumed to be true and the value payable discounted by 10%.

The second condition is that the Company receives at least £16,000,000 of fund management fees in respect of the VCT fund management contracts during the three years post completion.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

The third condition is that, during the same three-year period, the Northern VCTs collectively raise at least £60,000,000 in new capital. The fair value of the deferred consideration in respect of these two conditions has been based on a weighted probability of outcomes over the three-year period and discounted by 10%.

The discount applied is reflective of the risk profile of the conditions being met and is considered a significant assumption. Should the discount rate be increased by 1%, the value of the deferred consideration would reduce by £200,000 with goodwill decreasing by a corresponding amount.

3. Segmental reporting

For the year ended 31 March 2020, the Company's revenue and profit were derived from its principal activity within the United Kingdom.

An analysis of the Company's revenue is as follows:

	2020	2019
	£	£
Fund and initial management fees	**3,006,319**	1,165,946
Portfolio directors' fees	**1,343,584**	1,031,306
Other revenue	**273,988**	186,215
	4,623,891	2,383,467

4. Exceptional item

The exceptional item for the year ended 31 March 2020 of £190,732 (2019: £nil) represents staff related costs incurred in connection with a restructuring which took place in March 2020.

5. Profit before taxation

Profit before taxation is stated after charging:

	2020	2019
	£	£
Depreciation	**756**	3,255
Expenses relating to short-term leases and leases of low-value assets	**17,229**	-
Operating lease costs	**-**	19,628
Fees payable to the Company's auditor for the audit (note 6)	**15,000**	6,735

6. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual report and financial statements were £15,000 (2019: £6,735). Audit fees represent the costs incurred for the statutory entity audit, which is additional to the audit of the Group's consolidated accounts, the costs of which are borne by the parent company.

Fees payable to Deloitte LLP for CASS related assurance services were £30,000 (2019: £30,000).

7. Staff costs

The average monthly number of employees (including Directors) was:

	2020 Number	2019 Number
Asset management	**18**	16

The aggregate remuneration comprised:

	2020 £	2019 £
Wages and salaries	**1,408,140**	1,140,826
Social security costs	**164,422**	156,230
Other pension costs (note 24)	**127,271**	94,837
	1,699,833	1,391,893

The total aggregate remuneration paid by the Company in the year was £8,779,882 (2019: £3,863,430). Recharges to fellow group undertakings, in respect of qualifying services provided, amounted to £7,080,049 (2019: £2,471,537). The increase in the financial year was due to the Group merging its two other payrolls managed by fellow group undertakings into one payroll under the management of Mercia Fund Management with effect from April 2019.

8. Directors' remuneration and transactions

	2020 £	2019 £
Directors' remuneration		
Aggregate emoluments	**340,166**	213,619
Company contributions to personal pension plan	**27,560**	14,984
	367,726	228,603

A proportion of the cost of employment of the Directors, for the provision of qualifying services, is recharged to the Company's fellow group undertakings. For the year ended 31 March 2020, this amounted to £1,190,024 (2019: £1,309,743).

8. Directors' remuneration and transactions (continued)

	2020 Number	2019 Number
Members of personal pension plans	**6**	5

	2020 £	2019 £
Remuneration of the highest paid Director		
Aggregate emoluments	**85,540**	81,299
Company contributions to personal pension plans	**6,171**	5,610

9. Taxation

	2020 £	2019 £
Corporation tax:		
Current year	**-**	-
Deferred tax	**(105,040)**	-
Total	**(105,040)**	-

The UK standard rate of corporation tax is 19% (2019: 19%). There is no current tax charge in the year. The deferred tax credit of £105,040 (2019: £nil) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset arising on the acquisition of the VCT fund management business of NVM Private Equity LLP.

A reconciliation from reported profit to total tax credit is shown below.

	2020 £	2019 £
Profit before taxation	**1,133,120**	287,907
Tax at the standard rate of corporation tax in the UK of 19% (2019: 19%)	**215,293**	54,702
Effects of:		
Expenses not deductible for tax purposes	**5,080**	307
Accelerated capital allowances not recognised	**-**	(1,574)
Other timing differences not recognised	**(1,758)**	4,099
Group relief claimed	**(218,615)**	(57,534)
Unwinding of deferred tax liability	**(105,040)**	-
Total	**(105,040)**	-

9. Taxation (continued)

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Further changes to the UK corporation tax rates were substantively enacted as at 31 March 2020, in Finance Bill 2020 (on 11 March 2020), which included increasing the main rate of corporation tax from 17% to 19% from 1 April 2020.

Deferred tax at the balance sheet date has been measured using these revised rates and reflected in these financial statements.

As at 31 March 2020, a deferred tax liability of £3,757,866 (2019: £nil) has been recognised in respect of the intangible asset arising on the acquisition of VCT fund management business of NVM Private Equity LLP in December 2019. A potential deferred tax asset of £106,506 (2019: £5,033) has not been recognised due to uncertainty regarding its future recoverability.

10. Goodwill

	£
Cost	
As at 1 April 2019	-
Additions	6,313,778
As at 31 March 2020	**6,313,778**

Included in additions to goodwill in the financial year is £6,313,778 which arose on the acquisition of the VCT fund management business in December 2019. Details of the consideration paid and assets acquired as part of this acquisition are set out in note 2 to these financial statements.

Goodwill has been assessed for impairment as at 31 March 2020. Recoverable amounts for the Company's one cash generating unit ("CGU") are based on the higher of value in use and fair value less costs of disposal ("FVLCD"). FVLCD for the CGU to which goodwill has been allocated was calculated using a revenue multiple model based on the CGU's budgeted revenues for the financial year ending 31 March 2021. The review concluded that the FVLCD recoverable amount for the CGU exceeds its carrying value. The Directors do not consider that any reasonable possible changes to the key assumptions would reduce the recoverable amount.

11. Intangible assets

Intangible assets represent contractual arrangements in respect of fund management contracts novated through the acquisition of the VCT fund management business of NVM Private Equity LLP, where it is probable that the future economic benefits that are attributable to those the assets will flow to the Company and the fair value of the assets can be measured reliably.

Further details are included in note 2 to these financial statements.

11. Intangible assets (continued)

	£
Cost	
As at 1 April 2019	-
Additions	20,331,082
As at 31 March 2020	**20,331,082**
Accumulated amortisation	
As at 1 April 2019	-
Charge for the year	552,275
As at 31 March 2020	**552,275**
Net book value	
As at 31 March 2019	-
As at 31 March 2020	**19,778,807**

12. Property, plant and equipment

	Office equipment £
Cost	
As at 1 April 2019	60,639
Additions	-
As at 31 March 2020	**60,639**
Accumulated depreciation	
At 1 April 2019	59,883
Charge for the year	756
As at 31 March 2020	**60,639**
Net book value	
As at 31 March 2019	756
As at 31 March 2020	-

13. Right-of-use asset

	£
Cost	
As at 1 April 2019	-
Additions	382,733
As at 31 March 2020	**382,733**
Accumulated depreciation	
At 1 April 2019	-
Charge for the year	57,410
As at 31 March 2020	**57,410**
Net book value	
As at 31 March 2019	-
As at 31 March 2020	**325,323**

14. Investments

	£
Cost and net book value	
As at 1 April 2019	114
Additions	-
As at 31 March 2020	**114**

Details of the Company's subsidiaries as at 31 March 2020 are as follows. Unless otherwise indicated, all ownership interests are in the Ordinary share capital of the subsidiary.

Investments in subsidiary undertakings are stated at cost less provision for any impairment losses.

The companies listed below have their registered offices at Forward House, 17 High Street, Henley-in-Arden, Warwickshire, B95 5AA.

Notes to the Financial Statements (continued)
For the year ended 31 March 2020

14. Investments (continued)

Name	Place of incorporation and operation	Proportion of ownership interest	Nature of business
Mercia Fund 1 General Partner Limited	England	98%	Investment fund general partner
Mercia Fund Management (Nominees) Limited	England	100%	Dormant
Mercia Growth Nominees Limited	England	100%	Dormant
Mercia Growth Nominees 2 Limited	England	100%	Dormant
Mercia Growth Nominees 3 Limited	England	100%	Dormant
Mercia Growth Nominees 4 Limited	England	100%	Dormant
Mercia Growth Nominees 5 Limited	England	100%	Dormant
Mercia Growth Nominees 6 Limited	England	100%	Dormant
Mercia Growth Nominees 7 Limited	England	100%	Dormant
Mercia Growth Nominees 8 Limited	England	100%	Dormant
Mercia Digital Nominees Limited	England	100%	Dormant
UGF Nominees Limited	England	100%	Dormant
Mercia Investment Management Limited	England	100%	Dormant
WM AHSN SME General Partner Limited	England	100%	Dormant
Mercia Technologies Limited	England	100%	Dormant

15. Trade and other receivables

	2020 £	2019 £
Trade receivables	**118,002**	122,630
Amounts due from group undertakings	**326,632**	10,500
Prepayments and accrued income	**184,974**	23,664
	629,608	156,794

16. Trade and other payables

	2020 £	2019 £
Trade payables	**368,058**	13,599
Amounts owed to group undertakings	**212,583**	19,265
Taxation and social security	**243,812**	110,123
Other payables	**749,153**	753,193
Accruals and deferred income	**1,013,967**	796,083
	2,587,573	1,692,263

Other payables includes £467,026 (2019: £628,658) in respect of cash held on behalf of third-party EIS investors, pending investment.

17. Lease liability

The only impact of IFRS 16, 'Leases', on the Company relates to a lease for use of office premises at one location. This was earlier classified as an operating lease under IAS 17, with lease rentals charged to operating expenses on a straight-line basis over the lease term. As required by IFRS 16, as a lessee, the Company has recognised a lease liability representing the present value of the obligation to make lease payments, and a related right-of-use asset.

In calculating the present value of the obligation to make lease payments, the Company's incremental borrowing rate has been used as the discount rate, as the rate implicit in the lease are not evident. The incremental rate referred to by IFRS 16 indicates the rate of interest that a lessee would have to pay to borrow over a similar term, with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The weighted average lessee's incremental borrowing rate applied to the lease liability recognised in the Company's balance sheet as at 31 March 2020 is 3.25%.

The following table shows the operating lease commitments disclosed when IAS 17 was applied at 31 March 2019, discounted using the borrowing rate at the date of initial application and the lease liability recognised in the Company's balance sheet at the date of initial application.

17. Lease liability (continued)

	£
Operating lease commitments as at 31 March 2019	458,720
Short-term leases and leases of low-value assets	(32,992)
Effect of discounting operating lease commitments as at 31 March 2019	(42,995)
Lease liability recognised as at 1 April 2019	**382,733**

The Company has recognised a right-of-use asset of £382,733 and lease liability of £382,733 on transition to IFRS 16 with effect from 1 April 2019. As at 31 March 2020, the Company had no lease liabilities in respect of leases committed to but not yet commenced.

The table below summarises the lease costs for the financial year ended 31 March 2020.

	£
Depreciation expense	57,410
Interest expense	13,401
Low-value and short-term lease expense	17,229

The maturity profile of the Company's IFRS 16 leases is set out in the table below.

	£
Due within one year	63,875
Due between two and five years	257,679
As at 31 March 2020	**321,554**

18. Deferred consideration

	2020 **£**	2019 £
Payable within one year	**1,735,893**	-
Payable within two to five years	**4,446,062**	-
	6,181,955	-

On 23 December 2019 the Company completed the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM"), which consisted of the acquisition of three fund management contracts with Northern Venture Trust PLC, Northern 2 VCT PLC and Northern 3 VCT PLC ('the Northern VCT Contracts') and the transfer of NVM's VCT investment team, for a total maximum consideration of £25,000,000. The initial consideration was £16,600,000, with deferred consideration of up to £8,400,000 also being payable, contingent upon certain conditions being met.

18. Deferred consideration (continued)

The deferred consideration comprises £6,300,000 in cash, payable in three equal instalments on the first, second and third anniversaries of completion, provided that no termination notice has been served by any of the Northern VCTs before each respective anniversary payment date, and £2,100,000 payable by the Company procuring the issue of up to £2,100,000 worth of Mercia Asset Management PLC Ordinary shares to NVM. There are no indications to date that notice will be given and so the fair value payable has been recognised, discounted back to the acquisition date at a rate of 10%.

50% of the deferred consideration shares will be payable if the Company has received at least £16,000,000 of fund management fees in respect of the Northern VCT fund management contracts in the three years post completion. The remaining 50% of the deferred consideration shares will be allotted and issued if, during the same three-year period, the Northern VCTs collectively raise at least £60,000,000 in new capital.

If either or both of these conditions are met the number of new Mercia Asset Management PLC Ordinary shares to be issued to satisfy the deferred share consideration will be calculated based on the average of the daily closing mid-market price for an Ordinary Mercia Asset Management PLC share, for each of the five days immediately preceding the date of issue. The fair value of this element of the deferred consideration has been based on a weighted probability of outcomes over the three-year period and discounted by 10%.

Further details are included in note 2 to these financial statements.

19. Deferred taxation

	2020	2019
	£	£
Recognition of deferred tax liability	**3,757,866**	-

Under IAS 12, 'Income Taxes', provision is made for the deferred tax liability associated with the recognition of the intangible asset arising on the acquisition of the VCT fund management business of NVM Private Equity LLP. This has been recognised at 19% of the fair value of the fund management contracts at acquisition and is reassessed each year end, with the movement being recognised in the profit and loss account.

As at 31 March 2020 a deferred tax liability of £3,757,866 (2019: £nil) has been recognised in respect of the intangible asset arising on the acquisition of the VCT fund management business of NVM Private Equity LLP.

20. Issued share capital

	2020	2019
	£	£
Allotted, called-up and fully paid		
16,607,234 (2019: 7,234) "A" Ordinary shares of £1 each	**16,607,234**	7,234
5,680 (2019: 6,232) "B" Ordinary shares of £1 each	**5,680**	5,680
250,000 (2019: 250,000) "B" Preference shares of £1 each	**250,000**	250,000
	16,862,914	262,914

20. Issued share capital (continued)

The "B" Preference shares shall not be entitled to receive notice of or vote at any meeting of the Company. On a return of capital, the "B" Preference shares will receive an amount equal to all dividends declared but unpaid, followed in priority to the "A" Ordinary shares and the "B" Ordinary shares. The "B" Preference shares are redeemable.

On 23 December 2019 12,400,000 new "A" Ordinary shares of £1 were allotted to the Company's parent, Mercia Asset Management PLC, as part of the initial consideration for the acquisition of the VCT fund management business of NVM Private Equity LLP, and were fully paid up.

On 23 December 2019 4,200,000 new "A" Ordinary shares of £1 each were allotted to the Company's parent, Mercia Asset Management PLC, in consideration for it issuing shares to NVM Private Equity LLP as part of the initial consideration for the acquisition of its VCT fund management business, and were fully paid up.

On 29 June 2020 9,000,000 new Ordinary shares of £1 each were allotted to the Company's parent, Mercia Asset Management PLC, and were fully paid up.

21. Capital redemption reserve

	£
As at 1 April 2019	200,422
As at 31 March 2020	**200,422**

22. Retained earnings

	£
As at 1 April 2019	923,769
Profit for the year	1,238,160
Dividend paid	(2,000,000)
As at 31 March 2020	**161,929**

23. Dividends

	2020 **£**	2019 £
Dividend paid:		
Dividend of £0.11860346 per share (2019: £nil)	**2,000,000**	-
	2,000,000	-

A dividend of £2,000,000 was paid to the Company's parent, Mercia Asset Management PLC, during the year.

24. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the period to 31 March 2020 was £127,271 (2019: £94,837). As at 31 March 2020, contribution payments amounting to £10,534 (2019: £30,364) were outstanding.

25. Related party transactions

The Company has taken advantage of the exemption granted under FRS 101 'Reduced Disclosure Framework' with regard to disclosures in respect of other subsidiary companies, which does not require disclosure of transactions between 100% owned subsidiary undertakings within the same group.

26. Controlling party

The largest and smallest group of which the Company is a member and for which consolidated financial statements are prepared is the Company's immediate and ultimate parent and controlling party, being Mercia Asset Management PLC which is incorporated in England and Wales, United Kingdom and whose registered office address is Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA. A copy of the financial statements of Mercia Asset Management PLC can be obtained from its registered office address as disclosed above. Its shares are admitted to trading on the Alternative Investment Market ("AIM").

27. Post balance sheet events

The impact of the outbreak and continuing spread of the novel coronavirus ("COVID-19") is continuing to evolve. The Company is continually monitoring the development of COVID-19 and the current and future impacts it will have on the business. The actions to mitigate these risks have been noted in the principal risks and uncertainties section on pages 52 to 55 of the Group's Annual Report. As discussed in the Strategic Report, at this time, the Directors are not able to reliably estimate the length and severity of the COVID-19 public health crisis and, as such, cannot quantify its impact on the financial results, liquidity and capital resources of the Group and its operations in future periods.

On 29 June 2020 9,000,000 new Ordinary shares of £1 each were allotted to the Company's parent, Mercia Asset Management PLC, and were fully paid up.

There have been no other material events since the balance sheet date.