Mercia Fund Management Limited

Annual Report and Financial Statements

For the year ended 31 March 2022

Registered number: 06973399

Mercia Fund Management Limited

Annual Report and Financial Statements 2022

Contents

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

Secretary
Graham Venables (appointed 11 August 2021)
Sarah-Louise Anne Thawley (resigned 11 August 2021)

Registered Office
Forward House
17 High Street
Henley-in-Arden
Warwickshire
B95 5AA
United Kingdom

Independent Auditor
BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Bankers
Lloyds Bank PLC
125 Colmore Row
Birmingham
B3 3SD
United Kingdom

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 2022. The comparative figures cover the year ended 31 March 2021.

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.

As shown in the Company's profit and loss account on page 9, revenues decreased by 8% in the year to £14,716,164 (2021: £16,056,751), principally as a result of increased fund management fees offset by the non-occurrence of VCT share offer fees and a reduction in performance fees earnt. The profit and total comprehensive income for the year was £3,005,956 (2021: £6,862,260).

Performance fees totalling £2,538,026 (2021: £284,000) were received from Northern Venture Trust PLC based upon the growth in its net asset values per share above a hurdle, for the year to 30 September 2021. As at 31 March 2022 no performance fees were due from Northern 2 VCT PLC and Northern 3 VCT PLC (2021: £3,305,000). Incremental VCT investment team bonuses (including employer's National Insurance) totalling £1,015,243 have been accrued (2021: £120,000).

The balance sheet on page 11 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 to grow and secure 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 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 the Group as a whole, including an assessment of the impact of the continuing coronavirus ("COVID-19") pandemic and the war in Ukraine on the Group, is provided on pages 42 to 51 of the Group's Annual Report which does not form part of this report.

Approval

Approved by the Board on 25 July 2022 and signed on its behalf by:

Dr Mark Payton
Director

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

Directors' Report

Results and dividends

Profit and total comprehensive income for the year was £3,005,956 (2021: £6,862,260). No dividend was paid to the Company's parent, Mercia Asset Management PLC, during the year (2021: £nil).

Future developments and events after the balance sheet date

Details of future developments can be found in the Strategic Report on page 2 and form part of this report by cross-reference. There have been no other material events since the balance sheet date.

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

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

Based on the continued strength of the Company's balance sheet, including its significant liquidity position at the year end, its forecast future operating and investment activities and, having considered the ongoing impact of COVID-19 and the war in Ukraine on the Company's operations and portfolio, the Directors have a reasonable expectation that the Company has adequate financial resources to manage business risks in the current economic environment, and continue in operational existence for a period of at least twelve months from the date of this report. Accordingly, the Directors continue 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 13.

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

BDO 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 25 July 2022 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

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 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

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mercia Fund Management Limited ("the Company") for the year ended 31 March 2022 which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

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

We have nothing to report in this regard.

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

Other Companies Act 2006 reporting

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 material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept, 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.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These laws and regulations included but were not limited to compliance with the Companies Act 2006 and those resulting from being authorised by the Financial Conduct Authority to undertake regulated activities.

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

We considered compliance with laws and regulations that could give rise to a material misstatement in the Company's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and the finance staff;
- assessing areas subject to significant estimation and judgement for indicators of management bias
- testing of journal postings made during the year to identify potential management override of controls; and
- review of meeting minutes throughout the period.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and discussed how and where these might occur and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

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

Use of our report

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

DocuSigned by:

Vanessa Bradley

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Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
25 July 2022
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Mercia Fund Management Limited

Profit and Loss Account
For the year ended 31 March 2022

	Note	2022 £	2021 £
Revenue	3	**14,716,164**	16,056,751
Administrative expenses		**(7,983,198)**	(6,895,085)
Amortisation of intangible assets	10	**(2,033,112)**	(2,033,112)
Movement in fair value of deferred consideration		**(496,069)**	(641,881)
Operating profit		**4,203,785**	6,486,673
Finance income		**73,973**	-
Finance costs	16	**(9,449)**	(10,705)
Profit before taxation	4	**4,268,309**	6,475,968
Taxation	8	**(1,262,353)**	386,292
Profit and total comprehensive income for the financial year		**3,005,956**	6,862,260

All results derive from continuing operations.

The notes on pages 13 to 27 are an integral part of these financial statements.

Mercia Fund Management Limited

Statement of Other Comprehensive Income
For the year ended 31 March 2022

	2022 £	2021 £
Profit for the year	**3,005,956**	6,862,260
Total comprehensive income for the year	**3,005,956**	6,862,260
Attributable to the owners of the Company	**3,005,956**	6,862,260

Mercia Fund Management Limited

Balance Sheet
As at 31 March 2022

	Note	2022 £	2021 £
Non-current assets			
Goodwill	9	**6,930,005**	6,930,005
Intangible assets	10	**15,712,583**	17,745,695
Property, plant and equipment	11	**-**	-
Right-of-use asset	12	**274,749**	248,776
Trade and other receivables	14	**5,000,000**	-
Investments	13	**114**	114
		27,917,451	24,924,590
Current assets			
Trade and other receivables	14	**837,573**	3,535,356
Restricted cash		**-**	2,483,677
Cash at bank and in hand		**19,462,935**	16,610,130
		20,300,508	22,629,163
Total assets		**48,217,959**	47,553,753
Current liabilities			
Trade and other payables	15	**(4,167,413)**	(5,496,912)
Lease liability	16	**(99,149)**	(66,414)
Deferred consideration	17	**(3,920,719)**	(1,603,931)
		(8,187,281)	(7,167,257)
Non-current liabilities			
Lease liability	16	**(193,746)**	(191,265)
Deferred consideration	17	**-**	(3,920,719)
Deferred taxation	18	**(3,928,038)**	(3,371,574)
		(4,121,784)	(7,483,558)
Total liabilities		**(12,309,065)**	(14,650,815)
Net assets		**35,908,894**	32,902,938
Capital and reserves			
Issued share capital	19	**25,862,914**	25,862,914
Capital redemption reserve	20	**200,422**	200,422
Retained earnings	21	**9,845,558**	6,839,602
Shareholders' funds		**35,908,894**	32,902,938

The notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements of Mercia Fund Management Limited, registered number 06973399, on pages 9 to 27 were approved by the Board of Directors and authorised for issue on 25 July 2022. 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 2022

	Issued share capital £	Capital redemption reserve £	Retained earnings £	Total £
As at 1 April 2020	**16,862,914**	**200,422**	**(22,658)**	**17,040,678**
Total comprehensive income for the year	-	-	6,862,260	6,862,260
Issue of Ordinary share capital	9,000,000	-	-	9,000,000
As at 31 March 2021	**25,862,914**	**200,422**	**6,839,602**	**32,902,938**
Total comprehensive income for the year	**-**	**-**	**3,005,956**	**3,005,956**
As at 31 March 2022	**25,862,914**	**200,422**	**9,845,558**	**35,908,894**

Notes to the Financial Statements
For the year ended 31 March 2022

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 2022, 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 24 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 24 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 3, which describe the financial results of the Company and its objectives.

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 and the war in Ukraine, using the information available up to the date of issue of these financial statements.

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.

1. Accounting policies (continued)

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

No new standards, interpretations and amendments effective in the year have had a material effect on the Company's financial statements.

New standards, interpretations and amendments not yet effective

No new standards, interpretations and amendments not yet effective are expected to have a material impact on the Company's future financial statements.

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.

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.

VCTs share offer fees

Share offer fees are typically earned from managed funds on a percentage of funds raised basis. They are recognised in the statement of comprehensive income upon completion of the fundraising as the performance obligation is met. Cash receipts are received upon the allotment of shares to investors. Costs associated with the fundraising are recognised in the statement of comprehensive income within administrative expenses when incurred.

1. Accounting policies (continued)

Revenue recognition (continued)

Performance fees

Performance fees are earned when specified performance metrics exceed hurdles set out within fund management agreements or agreed with investors. These fees are recognised in the statement of comprehensive income only when the Company is entitled to receive a fee based on performance, the quantum of fee is known and it is highly probable that payment will be received by the Company. Performance fees are received shortly after confirmation of entitlement. Directly attributable costs, such as staff compensation linked to the performance in excess of the hurdle, are recognised in the statement of comprehensive income within administrative expenses upon recognition of the performance fee.

Interest income

Interest income earned on loans issued to other group companies is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Note 3 to these financial statements gives further details.

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 re-measured to reflect any reassessment of expected payments or to reflect any lease modifications.

1. Accounting policies (continued)

Leases (continued)

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.

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 business 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'.

1. Accounting policies (continued)

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.

Intangible assets represent contractual arrangements in respect of the acquisition of the VCT fund management business in December 2020. 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. The expected useful life of the fund management contracts is 10 years for each of the three fund 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	3 years

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.

Valuation of deferred consideration

The fair value of the deferred consideration payable in respect of the acquisition of the VCT fund management business, which is contingent upon certain conditions being met, has been estimated with reference to the contractual obligations as at 31 March 2022. The conditions upon which payment of the deferred consideration is contingent are outlined below.

The first condition is that no termination notice is served by any of the three Northern VCT boards before the first, second or third anniversaries of completion. With no notice having been received as of the date of signing these financial statements, the first and second deferred consideration payments of £2,100,000 were paid in cash by the Company in December 2020 and December 2021. There have been no indications to date that notice will be given before the third anniversary.

The second condition is that the Company receives at least £16,000,000 of fees in respect of the VCT fund management contracts (excluding performance fees) during the three years post completion. 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 conditions has been based on a weighted probability of outcomes over the remaining period 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 discounted value of the deferred consideration as at 31 March 2022 would reduce by approximately £100,000.

3. Segmental reporting

For the year ended 31 March 2022, 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:

	2022 £	2021 £
Fund and initial management fees	**9,845,311**	8,062,658
Portfolio directors' fees	**2,018,210**	2,168,790
VCTs share offer fees	-	1,318,347
Performance fees	**2,538,026**	4,224,091
Other revenue	**314,617**	282,865
	14,716,164	16,056,751

4. Profit before taxation

Profit before taxation is stated after charging:

	2022 £	2021 £
Depreciation – right-of-use assets	**90,131**	76,547
Expenses relating to leases of low-value assets	**8,091**	6,926
Fees payable to the Company's auditor for the audit (note 5)	**12,000**	12,000

5. Auditor's remuneration

Fees payable to BDO LLP and their associates for the audit of the Company's financial statements were £12,000 (2021: £12,000) Audit fees represent the costs incurred for the statutory 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 BDO LLP for CASS related assurance services were £10,000 (2021: £10,000).

6. Staff costs

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

	2022 Number	2021 Number
Asset management	**34**	21

The aggregate remuneration comprised:

	2022 £	2021 £
Wages and salaries	**4,696,869**	3,019,733
Social security costs	**619,513**	353,397
Other pension costs (note 22)	**291,670**	220,287
	5,608,052	3,593,417

The total aggregate remuneration paid by the Company in the year was £11,763,835 (2021: £9,496,902). Recharges to fellow group undertakings, in respect of qualifying services provided, amounted to £6,155,783 (2021: £6,023,485).

7. Directors' remuneration and transactions

	2022 £	2021 £
Directors' remuneration		
Aggregate emoluments	839,920	1,063,061
Company contributions to personal pension plan	49,444	70,116
	889,364	1,133,177

A proportion of the cost of employment of the Directors, for the provision of qualifying services, is recharged to the Company's fellow group companies. For the year ended 31 March 2022, this amounted to £1,205,569 (2021: £1,194,451).

	2022 Number	2021 Number
Members of personal pension plans	**6**	6

	2022 £	2021 £
Remuneration of the highest paid Director		
Aggregate emoluments	252,386	329,846
Company contributions to personal pension plans	14,934	10,340

8. Taxation

	2022 £	2021 £
Corporation tax:		
UK Corporation tax	**(705,879)**	-
Deferred tax:		
Origination and reversal of temporary timing differences	**508,278**	386,292
Effects of changes in tax rates	**(1,064,742)**	-
Total tax (charge)/credit	**(1,262,343)**	386,292

The UK standard rate of corporation tax is 19% (2021: 19%). The deferred tax credit of £508,278 (2021: £386,292) 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.

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

8. Taxation (continued)

	2022 £	2021 £
Profit before taxation	**4,268,309**	6,475,968
Tax at the standard rate of corporation tax in the UK of 19% (2021: 19%)	**(810,979)**	(1,230,434)
Effects of:		
Expenses not deductible for tax purposes	**(98,717)**	(137,317)
Remeasurement of deferred tax for changes in tax rates	**(943,047)**	-
Group relief claimed	**590,390**	1,754,043
Total tax credit	**(1,262,353)**	386,292

Changes to the UK corporation tax rate were substantively enacted on 24 May 2022. From 1 April 2023 the main corporation tax rate will increase to 25% from 19%.

As at 31 March 2022, a deferred tax liability of £3,928,038 (2021: £3,371,574) has been recognised in respect of the intangible asset arising on the acquisition of VCT fund management business in December 2019. A potential deferred tax asset of £2,401 (2021: £3,276) has not been recognised due to uncertainty regarding its future recoverability.

9. Goodwill

	£
Cost	
As at 1 April 2020, 31 March 2021 and 31 March 2022	**6,930,005**

Goodwill arose on the acquisition of the VCT fund management business in December 2020.

Goodwill has been assessed for impairment as at 31 March 2022. 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").

The value in use calculation is based on future expected cash flows generated by the CGU, as derived from the approved budget for the year ended 31 March 2022.

Key assumptions are the discount rate and growth rates used in forecasting the operating results. The review concluded that the value in use 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.

10. Intangible assets

Intangible assets represent contractual arrangements in respect of fund management contracts novated through the acquisition of the VCT fund management business. Further details are included in note 2 to these financial statements.

	£
Cost	
As at 1 April 2020	-
Additions	20,331,082
As at 31 March 2021	**20,331,082**
As at 31 March 2022	**20,331,082**
Accumulated amortisation	
As at 1 April 2020	552,275
Charge for the year	2,033,112
As at 31 March 2021	**2,585,387**
Charge for the year	**2,033,112**
As at 31 March 2022	**4,618,499**
Net book value	
As at 1 April 2020	19,778,807
As at 31 March 2021	17,745,695
As at 31 March 2022	**15,712,583**

11. Property, plant and equipment

	Office equipment £
Cost	
As at 1 April 2020, 31 March 2021 and 31 March 2022	**60,639**
Accumulated depreciation	
At 1 April 2020	60,639
Charge for the year	-
As at 31 March 2021	**60,639**
Charge for the year	-
As at 31 March 2022	**60,639**
Net book value	
As at 1 April 2020, 31 March 2021 and 31 March 2022	-

Mercia Fund Management Limited

Notes to the Financial Statements (continued)
For the year ended 31 March 2022

12. Right-of-use asset

	Motor Vehicles £	Properties £	Total £
Cost			
As at 1 April 2020	-	382,733	382,733
Additions	-	-	-
As at 31 March 2021	-	382,733	382,733
Additions	115,329	775	116,104
As at 31 March 2022	**115,329**	**383,508**	**498,837**
Accumulated depreciation			
As at 1 April 2020	-	57,410	57,410
Charge for the year	-	76,547	76,547
As at 31 March 2021	-	133,957	133,957
Charge for the year	13,159	76,972	90,131
As at 31 March 2022	**13,159**	**210,929**	**224,088**
Net book value			
As at 1 April 2020	-	325,323	325,323
As at 31 March 2021	-	248,776	248,776
As at 31 March 2022	**102,170**	**172,579**	**274,749**

13. Investments

	£
Cost and net book value	
As at 1 April 2020 and 1 April 2021	114
As at 31 March 2022	**114**

Details of the Company's subsidiaries as at 31 March 2022 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 have their registered offices at Forward House, 17 High Street, Henley-in-Arden, Warwickshire, B95 5AA.

13. 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%	Investment fund general partner
Mercia Technologies Limited	England	100%	Dormant

14. Trade and other receivables

	2022 £	2021 £
Trade receivables	**325,706**	197,946
Amounts due from group undertakings – due within one year	**395,823**	-
Prepayments and accrued income	**116,044**	3,337,410
Total current trade and other receivables	**837,573**	3,535,356
Amounts due from group undertakings – due after more than one year	**5,000,000**	-
	5,837,573	3,535,356

Amounts due from group undertakings, due after more than one year, are in respect of an unsecured, interest bearing loan. Interest is charged on the principal sum of the loan at a rate of 4% and is paid half yearly. The terms of the loan are such that the earliest date on which the Company can recall the loan is five years from the loan agreement date.

15. Trade and other payables

	2022 £	2021 £
Trade payables	**51,262**	113,865
Amounts owed to group undertakings	**27,739**	21,965
Taxation and social security	**1,021,480**	240,239
Other payables	**181,641**	2,995,948
Accruals and deferred income	**2,179,402**	2,124,895
	3,461,524	5,496,912

Other payables include £nil (2021: £2,483,677) in respect of cash held on behalf of third-party EIS investors.

16. Lease liability

The Company holds leases for use of office premises and electric vehicles. As at 31 March 2022, the Company had no lease liabilities in respect of leases committed to but not yet commenced.

The table below summarises the lease costs in the profit and loss.

	2022 £	2021 £
Depreciation expense	**90,131**	76,547
Finance cost – lease interest	**9,449**	10,705
Short-term lease expense	**68,520**	44,935
Low-value lease expense	**1,371**	6,926

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

	2022 £	2021 £
Due within one year	**99,149**	66,414
Due between two and five years	**193,746**	191,265
As at 31 March	**292,895**	257,679

Total cash outflows for lease liabilities in the year amounted to £88,627 (2021: £74,580).

17. Deferred consideration

	2022 £	2021 £
Payable within one year	**3,920,719**	1,603,931
Payable within two to five years	**-**	3,920,719
	3,920,719	5,524,650

On 23 December 2019 the Company completed the acquisition of the Northern VCT fund management business, 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 was £16,600,000, with deferred consideration of up to £8,400,000 also being payable, contingent upon certain conditions being met.

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. In December 2021, the first cash instalment of £2,100,000 was paid by the Company.

In addition, £2,100,000 is payable in new Mercia Asset Management PLC Ordinary shares on the third anniversary. Half of the deferred consideration shares will be payable if the Company has received at least £16,000,000 of fund management fees (excluding performance 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 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 remaining period and discounted by 10%.

18. Deferred taxation

	2022 £	2021 £
Recognition of deferred tax liability	**3,928,038**	3,371,574

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. This has been recognised at 19% of the fair value of the fund management contracts at acquisition and subsequently remeasured as at 31 March 2022 using the enacted tax rate of 25%.

As at 31 March 2022 a deferred tax liability of £3,928,038 (2021: £3,371,574) has been recognised in respect of the intangible asset arising on the acquisition of the VCT fund management business.

19. Issued share capital

	2022 £	2021 £
Allotted, called-up and fully paid		
25,862,914 (2021: 25,862,914) Ordinary shares of £1 each	**25,862,914**	25,862,914

20. Capital redemption reserve

	£
As at 1 April 2020, 31 March 2021 and 31 March 2022	**200,422**

The capital redemption reserve is a statutory non-distributable reserve created following the purchase of the Company's preference and ordinary shares on 5 February 2014, and redemption of the Company's preference shares on 11 September 2018.

21. Retained earnings

	£
As at 1 April 2021	6,839,602
Profit for the year	3,005,956
As at 31 March 2022	**9,845,558**

22. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the period to 31 March 2022 was £291,670 (2021: £220,287). As at 31 March 2022, contribution payments amounting to £13,052 (2021: £11,147) were outstanding.

23. 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.

24. 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").

25. Post balance sheet events

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