

m-hance Group Limited

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number 07203843



m-hance Group Limited

Company Information

Directors	R A Asplin A J Moody S Haigh
Company secretary	Ocorian Administration (UK) Limited
Registered number	07203843
Registered office	Trinity House Bredbury Park Way Stockport Cheshire SK6 2SN
Independent auditor	BDO LLP 3 Hardman Street Manchester M3 3AT

m-hance Group Limited

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m-hance Group Limited

Group Strategic Report For the Year Ended 31 December 2019

The directors present their Strategic Report and the financial statements for the year ended 31 December 2019. The report covers the activities of m-hance Group Limited (the "Company") and the results of the Company and its subsidiaries (together referred to as the "Group").

Principal activities and review of the business

The directors use a number of measures, both financial and non-financial, to monitor the performance of the Company, and consider Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) to be the principal financial performance indicator of trading performance of the business.

The Group's key financial and other performance indicators during the period were as follows:

	2019 £	2018 £
Revenue	12,452,059	12,784,448
Gross profit	9,536,195	9,504,403
Adjusted EBITDA*	1,057,345	803,522
Average number of employees	117	119

*Adjusted EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation, and is stated before any impairment charges, shareholder recharge, and exceptional items. Adjusted EBITDA is reconciled to operating profit as follows.

	2019 £	2018 £
Operating loss	(269,860)	(578,981)
Depreciation of tangible fixed assets	158,975	190,622
Amortisation of intangible assets	952,138	899,362
Shareholder recharge	94,009	269,099
Exceptional items	122,083	23,420
Adjusted EBITDA	1,057,345	803,522

m-hance Group Limited

Group Strategic Report (continued) For the Year Ended 31 December 2019

The principal activity of the Group is the provision of Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) business software, systems and services to a wide range of organisations based primarily in the UK but also in Europe and the USA.

The Group is one of the largest accredited Microsoft Dynamics GP partners in Europe and is a multi award winning provider of Microsoft Dynamics based solutions. The Group is a Microsoft Gold partner and has gained a growing reputation as a leading partner in the Not for Profit (NfP) sector with its NfP propositions addressing charities' increasing regulatory and compliance requirements and the demand for digital SaaS solutions. The strength of the NfP market position is further evidenced by being the sole European partner at Microsoft's Technology for Social Impact global launch. The Group is fully behind Microsoft's Dynamics365 Business Central SaaS product road map and is ideally placed to act as a trusted advisor to its customer base on their journey to cloud based platforms. The development of NfP365 Financials will facilitate cross sell initiatives within the charity sector for both existing and new customers to create a unified solution and enhance the Group's strategic position within the NfP sector.

The Group will continue to invest in the development of the NfP product set which will generate additional Service and SaaS revenues. Additionally, investment in the clear and deliverable SaaS product development roadmap for the ERP market will enable the retention and expansion of the large ERP customer base.

Expected attrition in the legacy recurring base namely within Intellect365, Great Plains and DMS, along with a slower than anticipated uptake up of the cloud based offerings within ERP resulted in a reduction in revenue in the year of 2.6%. Despite this gross margin increased by 2% to 76.3%. The business has strengthened its operational focus with a greater emphasis on sales and marketing initiatives and integrating its technical services and support functions to provide an enhanced customer first approach. The operations of the UK and Irish companies within the Group are effectively aligned to encourage a greater sharing of skills and resources. Costs have also been closely managed with administration expenses reducing by 3.5%. The strong management of the business has resulted in Adjusted EBITDA improving by 32% to £1,057,345.

Working capital and cash forecasting are managed and well controlled by the experienced finance team. The Group's only significant third party financing facility is a property mortgage of £253,333 secured on the Stockport office building. It should be noted that creditors falling due within one year includes £3,583,391 of deferred revenue which relates to future periods of annual support contracts which are recognised over the duration of the contract and are not a cash liability.

m-hance Group Limited

Group Strategic Report (continued) For the Year Ended 31 December 2019

Future developments and events after the reporting period

On 31 January 2020 the World Health Organisation announced that Covid-19 constituted a global health emergency.

Details of events subsequent to the year-end have been disclosed in note 26 to the financial statements, including the Covid-19 pandemic.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence throughout the Covid-19 pandemic and the foreseeable future.

Principal risks and uncertainties

The Group's principal business risks are summaries below, together with the key processes which are in place to monitor and manage them.

Market risks

Our markets are subject to fluctuations in demand by customers, which are linked to the wider economic environment. The Group monitors market developments and reflects these in its business planning processes.

Operational risk

Operational risk refers to the risk of financial loss from issues relating to internal process, people and systems. The Group manages this area of risk through internal controls and intervention when required, together with management reporting systems and appropriate insurance cover.

Liquidity and cash-flow risk

In order to mitigate the risk that it may be unable to fund its ongoing cash requirements, the Group monitors and manages its liquidity position using treasury tools such as rolling cash flow forecasts and scenario planning around its business forecasts. The Group establishes credit limits with its customers and monitors customer credit balances on a regular business.

This report was approved by the board on 30-09-20

and signed on its behalf.

DocuSigned by:

A Moody
Director

m-hance Group Limited

Directors' Report For the Year Ended 31 December 2019

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

Results and dividends

The loss for the year, after taxation, amounted to £336,578 (2018 - loss £629,819).

Directors

The directors who served during the year were:

T Darbyshire (resigned 31 December 2019)
R A Asplin
A J Moody
S Haigh

Political and charitable contributions

The Group made no political or charitable contributions during the year (2018 - £Nil).

Matters covered in the Strategic Report

Disclosures required under S416(4) of the Companies Act 2006 are commented upon in the Strategic Report as the Directors consider them to be of strategic importance to the Group.

Future developments

The directors are confident that the business is well placed for future growth in both revenues and profits.

Going concern

As at 31 December 2019 the Group has net liabilities of £739,484 (2018 - £426,690) and net current liabilities of £3,041,786 (2018 - £3,757,812). As stated in the Strategic Report this includes £3,583,391 of deferred revenue which relates to future periods of annual support contracts which are recognised over the duration of the contract and are not a cash liability.

The directors have reviewed the latest trading forecasts in line with the current strong liquidity levels and are confident that the Group will generate trading cash in excess of its liabilities as they fall due for the twelve months from the date of signing this report. On this basis, the directors have a reasonable expectation that the Group will be able to continue for the next twelve months. Thus, the going concern basis of accounting has been adopted in preparing the annual financial statements.

Details of the impact of Covid-19 on the Group's going concern position are provided in the "Going concern assessment" note 2.4. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence throughout the Covid-19 pandemic and the foreseeable future, even in the event of a second Covid-19 wave impacting Q4 of 2020 and Q1 of 2021. The Group will therefore continue to adopt the going concern basis in preparing the financial statements.

m-hance Group Limited

Directors' Report (continued) For the Year Ended 31 December 2019

Disclosure of information to auditor

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

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

Post balance sheet events

Details of events subsequent to the year-end have been disclosed in note 26 to the financial statements, including the Covid-19 pandemic.

Auditor

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

This report was approved by the board on 30-09-20

and signed on its behalf.

DocuSigned by:

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A J Moody
Director

m-hance Group Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2019

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the Group and of the profit or loss of the Group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

m-hance Group Limited

Independent Auditor's Report to the Members of m-hance Group Limited

Opinion

We have audited the financial statements of m-hance Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity and the Consolidated Statement of Cash Flows, and the 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 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

m-hance Group Limited

Independent Auditor's Report to the Members of m-hance Group Limited (continued)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

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

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

m-hance Group Limited

Independent Auditor's Report to the Members of m-hance Group 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 at 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Julien Rye (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom
30 September 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

m-hance Group Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	12,452,059	12,784,448
Cost of sales		(2,915,864)	(3,280,045)
Gross profit		9,536,195	9,504,403
Administrative expenses		(9,683,972)	(10,059,964)
Exceptional items	5	(122,083)	(23,420)
Total administrative expenses	6	(9,806,055)	(10,083,384)
Operating loss		(269,860)	(578,981)
Interest receivable and similar income	9	1,777	1,330
Interest payable and similar expenses	10	(45,287)	(52,168)
Loss before taxation		(313,370)	(629,819)
Tax on loss	11	(23,208)	-
Loss for the financial year		(336,578)	(629,819)
Currency translation differences		23,784	(17,697)
Other comprehensive income for the year		23,784	(17,697)
Total comprehensive loss for the year		(312,794)	(647,516)

All loss and comprehensive loss is attributable to the owners of the parent company.

The notes on pages 16 to 33 form part of these financial statements.


m-hance Group Limited

Registered number:07203843

**Consolidated Statement of Financial Position
As at 31 December 2019**

	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Intangible assets	12		1,629,248		2,274,769
Tangible assets	13		1,445,682		1,560,474
			<u>3,074,930</u>		<u>3,835,243</u>
Current assets					
Debtors: amounts falling due within one year	15	2,498,191		2,669,123	
Cash at bank and in hand		484,981		312,712	
		<u>2,983,172</u>		<u>2,981,835</u>	
Creditors: amounts falling due within one year	16	(6,024,958)		(6,739,647)	
Net current liabilities			<u>(3,041,786)</u>		<u>(3,757,812)</u>
Total assets less current liabilities			<u>33,144</u>		<u>77,431</u>
Creditors: amounts falling due after more than one year	17		(662,608)		(313,446)
Provisions for liabilities					
Other provisions	19		(110,020)		(190,675)
Net liabilities			<u>(739,484)</u>		<u>(426,690)</u>
Capital and reserves					
Called up share capital	20		100		100
Share premium account	21		13,132,733		13,132,733
Profit and loss account	21		(13,872,317)		(13,559,523)
Equity/(deficit) attributable to owners of the parent Company			<u>(739,484)</u>		<u>(426,690)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30-09-20

DocuSigned by:

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A J Moody
 Director

The notes on pages 16 to 33 form part of these financial statements.

m-hance Group Limited
Registered number:07203843

Company Statement of Financial Position
As at 31 December 2019

	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Investments	14		3,352,884		3,352,884
			<u>3,352,884</u>		<u>3,352,884</u>
Current assets					
Debtors: amounts falling due within one year	15	7,800,470		7,800,470	
		<u>7,800,470</u>		<u>7,800,470</u>	
Creditors: amounts falling due within one year	16	(4,842,836)		(4,842,836)	
				<u>(4,842,836)</u>	
Net current assets			<u>2,957,634</u>		<u>2,957,634</u>
Net assets			<u><u>6,310,518</u></u>		<u><u>6,310,518</u></u>
Capital and reserves					
Called up share capital	20		100		100
Share premium account	21		13,132,733		13,132,733
Profit and loss account brought forward			(6,822,315)		(6,822,315)
Profit for the year			-		-
			<u>(6,822,315)</u>		<u>(6,822,315)</u>
Profit and loss account carried forward			<u>(6,822,315)</u>		<u>(6,822,315)</u>
Total equity			<u><u>6,310,518</u></u>		<u><u>6,310,518</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30-09-20

A J Moody
Director

DocuSigned by:
Alan Moody
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The notes on pages 16 to 33 form part of these financial statements.

m-hance Group Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital	Share premium account	Profit and loss account	Total deficit
	£	£	£	£
At 1 January 2019	100	13,132,733	(13,559,523)	(426,690)
Comprehensive loss for the year				
Loss for the year	-	-	(336,578)	(336,578)
Currency translation differences	-	-	23,784	23,784
Total comprehensive loss for the year	-	-	(312,794)	(312,794)
At 31 December 2019	100	13,132,733	(13,872,317)	(739,484)

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2018	100	13,132,733	(12,912,007)	220,826
Comprehensive loss for the year				
Loss for the year	-	-	(629,819)	(629,819)
Currency translation differences	-	-	(17,697)	(17,697)
Total comprehensive loss for the year	-	-	(647,516)	(647,516)
At 31 December 2018	100	13,132,733	(13,559,523)	(426,690)

The notes on pages 16 to 33 form part of these financial statements.

m-hance Group Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2018	100	13,132,733	(6,822,315)	6,310,518
Comprehensive income for the year				
Profit for the year	-	-	-	-
At 1 January 2019	100	13,132,733	(6,822,315)	6,310,518
Comprehensive income for the year				
Profit for the year	-	-	-	-
At 31 December 2019	100	13,132,733	(6,822,315)	6,310,518

The notes on pages 16 to 33 form part of these financial statements.

m-hance Group Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2019

	2019 £	2018 £
Cash flows from operating activities		
Loss for the financial year	(336,578)	(629,819)
Adjustments for:		
Amortisation of intangible assets	963,062	899,362
Depreciation of tangible assets	158,975	190,622
Interest payable	45,287	52,168
Interest receivable	(1,777)	(1,330)
Taxation charge	23,208	-
Decrease in debtors	170,932	264,214
Decrease in creditors	(179,997)	(252,320)
(Decrease) in provisions	(80,655)	(35,101)
Corporation tax (paid)	(59)	(19,981)
Foreign exchange	17,864	(17,697)
Net cash generated from operating activities	780,262	450,118
Cash flows from investing activities		
Purchase of intangible fixed assets	(311,212)	(213,548)
Purchase of tangible fixed assets	(44,592)	(22,910)
Interest receivable	1,777	1,330
Net cash used in investing activities	(354,027)	(235,128)
Cash flows from financing activities		
Repayment of loans	(202,667)	(202,667)
Repayment of finance leases	(35,652)	(106,667)
Interest payable	(15,647)	(52,168)
Net cash used in financing activities	(253,966)	(361,502)
Net increase/(decrease) in cash and cash equivalents	172,269	(146,512)
Cash and cash equivalents at beginning of year	312,712	459,224
Cash and cash equivalents at the end of year	484,981	312,712
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	484,981	312,712

The notes on pages 16 to 33 form part of these financial statements.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

1. General information

m-hance Group Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office can be found on the Company Information page and the nature of the Group's operations and its principal activities are set out in the Strategic Report.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The presentation currency is GB Pounds. All amounts are rounded to the nearest £.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 3).

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

The following principal accounting policies have been applied:

2.2 Basis of consolidation

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

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

2.3 Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- No cash flow statement or net debt reconciliation has been presented for the parent company;
- Disclosures in respect of the parent company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.4 Going concern

As at 31 December 2019 the Group has net liabilities of £739,484 (2018 - £426,690) and net current liabilities of £3,041,786 (2018 - £3,757,812).

In preparing these financial statements, the Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group will continue in business. In satisfaction of this responsibility the Directors have considered the Group's ability to meet its liabilities as they fall due for a period of at least twelve months from the signing date of the financial statements.

Due to the current financial environment arising from the Covid-19 global pandemic, the management team have undertaken an assessment of the likely impact of Covid-19 on the Group based on latest available information and government guidance. The assessment has looked at the likely duration of the crisis as well as the sales that could be expected to be generated during a lockdown period extending into late 2020 and early 2021.

The Group currently operates successfully in a 100% remote working environment with client delivery completely based on remote connectivity and cloud-based activity. The Group has not experienced any significant disruption from employee absence or supplier networks and no impact is anticipated in the foreseeable future. From a liquidity perspective additional funding has been secured by means of a new low interest mortgage facility of £700k over 5 years with a 12- month payment holiday.

At the current time the Group is trading well against forecast, however, the Directors acknowledge that there may be a reduction or delay in revenue over the coming months due to the prevailing economic conditions. A reverse stress test has been conducted and considered and takes into account potential business disruptions and reductions in revenue over the coming months. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.5 Turnover

Turnover from the sale of goods and services is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer and its probable the economic benefits of the transaction will flow to the Group.

Turnover on the sale of software licences is recognised on delivery of the licence to the customer and the customer has the ability to use the software. If significant post-delivery obligations exist, turnover is deferred until no significant obligations remain. Turnover from maintenance and support service contracts is invoiced in advance, accounted for as deferred turnover and recognised as turnover in installments over the term of the contract. Turnover from software development and consultancy services is recognised over the duration of the project on a percentage of completion basis. Turnover from SaaS contracts is invoiced in advance, accounted for as deferred turnover and recognised as turnover in installments over the term of the service provided.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.6 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research is recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 1 to 3 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.7 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Group but are presented separately due to their size or incidence.

2.8 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.9 Finance costs

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

2.10 Borrowing costs

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

2.11 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.12 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

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

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'other operating income'.

On consolidation, all assets and liabilities of overseas operations are translated at the closing rate. Exchange differences arising on translating the net assets and the results of overseas operations are recognised in other comprehensive income.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.14 Intangible assets

Goodwill

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

Other intangible assets

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

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

The estimated useful percentages range is as follows:

Development costs	- 33% to 100%
Goodwill	- 10% to 25%

2.15 Tangible fixed assets

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

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	-	2% of property excluding land
Motor vehicles	-	25%
Fixtures and fittings	-	10% to 25%
Computer equipment	-	25%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

2.16 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Accounting policies (continued)

2.17 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.18 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.19 Financial instruments

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

2.20 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.21 Leased assets: the Group as lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Consolidated Statement of Comprehensive Income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

2.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

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

In preparing these financial statements, the directors have made the following judgements:

Determine whether there are indicators of impairment of the Group's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic visibility and expected future financial performance of the asset.

Other key sources of estimation uncertainty:

- **Tangible fixed assets (see note 13)**
Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- **Impairment of intangible assets (see note 12)**
An impairment review is performed at the reporting date, which requires an estimation of the value of the cash generating units to which goodwill has been allocated. The calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit, a suitable discount rate and the future selling multiple in order to calculate present value. No impairment has been identified at the reporting date.

4. Turnover

Analysis of turnover by country of destination:

	2019	2018
	£	£
United Kingdom & Ireland	11,867,057	12,124,355
Rest of the World	482,948	546,355
Rest of Europe	102,054	113,738
	12,452,059	12,784,448

5. Exceptional items

	2019	2018
	£	£
Restructuring costs	122,083	23,420

The restructuring costs in 2019 related to a restructuring of middle management and the closure of the business unit in the USA and the write off of an outstanding intercompany balance.

The 2018 restructuring costs relate to departmental restructuring in the UK.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

6. Operating loss

The operating loss is stated after charging/(crediting):

	2019 £	2018 £
Depreciation of tangible fixed assets	158,975	190,622
Amortisation of intangible fixed assets	952,138	899,362
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	37,889	32,710
	37,889	32,710

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Wages and salaries	6,281,466	6,535,906	-	-
Social security costs	661,006	713,964	-	-
Cost of defined contribution scheme	216,819	201,482	-	-
	7,159,291	7,451,352	-	-

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Sales	19	21
Administration	12	12
Operations	86	86
	117	119

The Company has no employees other than the directors, who did not receive any remuneration (2018 - £Nil).

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

8. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	340,413	219,980
Company contributions to defined contribution pension schemes	10,665	10,219
	351,078	230,199

During the year retirement benefits were accruing to 2 directors (2018 - 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £167,375 (2018 - £72,415).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £5,625 (2018 - £3,366).

9. Interest receivable

	2019 £	2018 £
Bank interest received	1,777	1,330
	1,777	1,330

10. Interest payable and similar expenses

	2019 £	2018 £
Bank interest payable	274	215
Other loan interest payable	12,429	18,001
Loan note interest	29,640	25,145
Finance leases and hire purchase contracts	2,944	8,807
	45,287	52,168

11. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	23,199	-
Adjustments in respect of previous periods	9	-
	23,208	-
Total current tax	23,208	-

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19.25%). The differences are explained below:

	2019 £	2018 £
Loss before tax	<u>(313,370)</u>	<u>(629,819)</u>
Loss multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19.25%)	(59,540)	(121,240)
Effects of:		
Expenses not deductible for tax purposes	22,782	10,033
Fixed asset differences	146,106	145,395
Adjustments to tax charge in respect of prior periods	9	-
Other timing differences leading to an increase (decrease) in taxation	-	1,354
Non-taxable income	(12,695)	-
Adjust closing deferred tax to average rate	23,004	34,517
Adjust opening deferred tax to average rate	(29,241)	(38,112)
Deferred tax not recognised	(53,016)	(26,116)
Impact of different tax rates	(11,874)	(5,831)
Tax losses brought forward	(2,327)	-
Total tax charge for the year	<u><u>23,208</u></u>	<u><u>-</u></u>

Factors that may affect future tax charges

Under legislation substantively enacted on 17 March 2020 the rate of UK corporation tax will continue to be 19% from 1 April 2020 onwards. As a result, there are no factors that may affect future tax charges.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

12. Intangible assets

Group

	Development costs £	Goodwill £	Total £
Cost			
At 1 January 2019	702,452	15,907,736	16,610,188
Additions	311,212	-	311,212
Foreign exchange movement	(4,595)	-	(4,595)
At 31 December 2019	<u>1,009,069</u>	<u>15,907,736</u>	<u>16,916,805</u>
Amortisation			
At 1 January 2019	567,504	13,767,915	14,335,419
Charge for the year	186,901	765,237	952,138
At 31 December 2019	<u>754,405</u>	<u>14,533,152</u>	<u>15,287,557</u>
Net book value			
At 31 December 2019	<u>254,664</u>	<u>1,374,584</u>	<u>1,629,248</u>
At 31 December 2018	<u>134,948</u>	<u>2,139,821</u>	<u>2,274,769</u>

As part of the year-end financial statements preparation, the directors of the various m-hance companies have undertaken a review of the carrying value of the goodwill on the Statement of Financial Position. The goodwill has arisen through the acquisition of various businesses acquired between 2010 and 2012 which have been integrated to form m-hance. All of the acquired businesses have been integrated and operate as a single business, trading through one entity in each jurisdiction with significant cross selling activities. Accordingly, the directors have considered the cash-flows of the combined business when assessing whether the carrying value of goodwill has been impaired. As a result of this review and in the light of the 2019 trading performance the directors have agreed that no impairment is required.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

13. Tangible fixed assets

Group

	Long-term leasehold property £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 January 2019	1,842,000	13,495	334,628	1,481,423	3,671,546
Additions	-	-	500	44,092	44,592
Disposals	-	-	(10,688)	(392,709)	(403,397)
Exchange adjustments	-	-	1,338	(1,747)	(409)
At 31 December 2019	<u>1,842,000</u>	<u>13,495</u>	<u>325,778</u>	<u>1,131,059</u>	<u>3,312,332</u>
Depreciation					
At 1 January 2019	485,060	13,495	292,133	1,320,384	2,111,072
Charge for the year	36,840	-	10,980	111,155	158,975
Disposals	-	-	(10,688)	(392,709)	(403,397)
At 31 December 2019	<u>521,900</u>	<u>13,495</u>	<u>292,425</u>	<u>1,038,830</u>	<u>1,866,650</u>
Net book value					
At 31 December 2019	<u>1,320,100</u>	<u>-</u>	<u>33,353</u>	<u>92,229</u>	<u>1,445,682</u>
At 31 December 2018	<u>1,356,940</u>	<u>-</u>	<u>42,495</u>	<u>161,039</u>	<u>1,560,474</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £	2018 £
Computer equipment	<u>40,000</u>	<u>120,000</u>

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

14. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost and net book value	
At 1 January 2019	3,352,884
At 31 December 2019	3,352,884

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Holding
m-hance Limited *	Trinity House, Bredbury Park Way, Stockport, Cheshire, SK6 2SN	100%
m-hance Holding (Ireland) Limited *	32 Molesworth Street, Dublin 2, DO2 Y512, Ireland	100%
m-hance Cloud Software Solution Limited **	32 Molesworth Street, Dublin 2, DO2 Y512, Ireland	100%

* Direct subsidiary undertaking

** Indirect subsidiary undertaking

During the year the Group disposed of its investment in m-hance India Private Limited and m-hance, Inc., indirect subsidiary undertakings.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

15. Debtors

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Amounts falling due within one year				
Trade debtors	1,103,113	1,201,540	-	-
Amounts owed by group undertakings	-	-	7,800,470	7,800,470
Other debtors	104,401	8,427	-	-
Prepayments	319,105	425,964	-	-
Deferred maintenance costs	971,572	1,033,192	-	-
	<u>2,498,191</u>	<u>2,669,123</u>	<u>7,800,470</u>	<u>7,800,470</u>

The Group impairment loss recognised in the profit and loss account for the year in respect of bad and doubtful trade debtors was £Nil (2018 - £169). The Company did not recognise an impairment loss in the year (2018 - £Nil).

Amounts owed by group undertakings are unsecured, non interest bearing and repayable on demand.

16. Creditors: Amounts falling due within one year

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Mortgage account	202,667	202,667	-	-
Shareholder loan note	-	528,585	-	-
Trade creditors	875,170	1,043,570	-	-
Amounts owed to group undertakings	-	-	4,842,836	4,842,836
Amounts owed to shareholder	61,000	56,000	-	-
Corporation tax	23,199	50	-	-
Other taxation and social security	594,870	634,910	-	-
Obligations under finance lease and hire purchase contracts	-	35,652	-	-
Other creditors	152,545	39,517	-	-
Accruals	585,834	485,444	-	-
Deferred income	3,529,673	3,713,252	-	-
	<u>6,024,958</u>	<u>6,739,647</u>	<u>4,842,836</u>	<u>4,842,836</u>

Amounts owed to group undertakings are unsecured, non interest bearing and payable on demand.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

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

	Group 2019 £	Group 2018 £
Mortgage account	50,666	253,333
Shareholder loan note	558,225	-
Deferred income	53,717	60,113
	662,608	313,446

The mortgage loan accrues interest at a rate of 2.5% above base and is repayable in 2021. The shareholder loan note accrues interest at a rate of 5% and is repayable in May 2021.

The mortgage account loan is secured by a debenture and a charge over Trinity House, 6-10 Bredbury Business Park, Stockport. The shareholder loan note is unsecured.

18. Loans

Analysis of the maturity of loans is given below:

	Group 2019 £	Group 2018 £
Amounts falling due within one year		
Mortgage account	202,667	202,667
Shareholder loan notes	-	528,585
	202,667	731,252
Amounts falling due 1-2 years		
Mortgage account	50,666	253,333
Shareholder loan notes	558,225	-
	608,891	253,333
	811,558	984,585

The mortgage loan accrues interest at a rate of 2.5% above base and is repayable in 2021. The shareholder loan note accrues interest at 5% and is repayable in May 2021.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

19. Provisions

Provision for onerous lease

Group

	£
At 1 January 2019	190,675
Charged to profit or loss	(80,655)
At 31 December 2019	110,020

The onerous lease provision relates to dilapidations on leased properties in the UK and Ireland.

20. Share capital

	2019	2018
	£	£
Allotted, called up and fully paid		
10,000 (2018 - 10,000) Ordinary shares of £0.01 each	100	100

21. Reserves

The Group and Company's capital and reserves are as follows:

Share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

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

22. Pension commitments

The Group operates a defined benefit contribution scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £216,819 (2018 - £201,482).

At 31 December 2019 contributions amounting to £42,234 (2018 - £35,752) were owed by the Group at that date.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

23. Commitments under operating leases

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

	Group 2019 £	Group 2018 £
Not later than 1 year	82,174	105,972
Later than 1 year and not later than 5 years	1,200	17,669
	83,374	123,641

24. Analysis of net debt

	At 1 January 2019 £	Cash flows £	Other non- cash changes £	At 31 December 2019 £
Cash at bank and in hand	312,712	172,269	-	484,981
Debt due after 1 year	(253,333)	-	(355,558)	(608,891)
Debt due within 1 year	(731,252)	202,667	325,918	(202,667)
Finance leases	(35,652)	35,652	-	-
	(707,525)	410,588	(29,640)	(326,577)

25. Related party transactions

The Company has taken advantage of the available exemption conferred by section 33.1A of FRS 102 not to disclose transactions with wholly owned group members.

Key management personnel include all directors of the Group who together have authority and responsibility for planning, directing and controlling the activities of the Group. The total compensation paid to key management personnel for services provided to the Group is disclosed in note 8.

26. Post balance sheet events

As stated in notes 2.4; The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for as long as the Covid-19 pandemic period lasts and the foreseeable future. It will therefore continue to adopt the going concern basis when preparing its financial statements.

The directors have reviewed the assets and liabilities as at the balance sheet date and post balance sheet date and conclude that there is no material impact on them as a result of the pandemic.

m-hance Group Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

27. Controlling party

The ultimate controlling party is BECAP Fund LP by virtue of a majority shareholding in the ultimate parent company.