Commercialising regional growth opportunities

mercia technologies

Mercia Technologies PLC › Annual Report and Accounts 2016

Mercia Technologies is a national investment group focused on building businesses from the UK regions to deliver returns for its shareholders and fund investors. Published statistics show there is a marked undersupply of capital in its target UK regions when compared to London and the South East of England. This provides Mercia with an opportunity to source and scale promising businesses with reduced investment competition.

We focus We build We deliver

With 14 university partnerships as at 31 March 2016 (and with an additional 4 partnerships secured post year end) and 6 offices across the Midlands, the North of England and Scotland, Mercia is able to source investment prospects first supported through its third party funds, and then selectively scale the most promising businesses ('Emerging Stars') using its own financial resources to accelerate their growth potential.

Mercia brings together industry expertise and venture competence from an investment team that has a strong track record. From seed through to exit, Mercia is well placed to deploy a full range of capital (its 'Complete Capital Solution') to build valuable businesses with global potential.

Via Mercia's third party funds under management, we benefit from a funnel of some 150 businesses being supported typically over a 6 month to 8 year period, before potentially joining the existing 22 direct investments. Less than 3% of the businesses that approach us for investment receive capital from our third party funds, and of these approximately 10% will go on over time to receive direct investment. Around a third of the direct investments originate from Mercia's university partnerships.

2016 highlights

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Financials

- Revenue of £1.8million
- Direct investment portfolio up by £13.5million
- Net fair value gains of £0.9million
- Direct investment portfolio of £38.1million
- Net assets of £80.0million
- Cash reserves of £30.9million
- Post-tax loss of £1.7million

Portfolio

- £12.6million net invested in 16 new and existing direct investment portfolio companies during the reporting year with a further £0.4million invested post year end in Concepta Diagnostics – the first direct investment arising from Enterprise Ventures' third party investment portfolio
- 6 exciting new direct investments: Edge Case Games, Impression Technologies, LM Technologies, PsiOxus Therapeutics, Intelligent Positioning and Oxford Genetics, all with significant upside potential
- Further investment made into 10 existing Emerging Stars including expanding Mercia's stake to 40% in the leading virtual reality content developer nDreams, and to scale the business
- Good progress made with Mercia's other direct investments
- Investment platform has now been scaled to deliver the objective of a sustainable portfolio of future direct investments

Operational

- Acquisition of the entire issued share capital of the profitable fund management business Enterprise Ventures Group Ltd, the dominant provider of funding to SMEs across the North of England
- The acquisition results in increased funds under management to support potential future direct investment prospects to circa £220.0million
- In the reporting year university partnerships grown to 14 from 9 at the start of the year, adding the universities of Abertay and Strathclyde in Scotland and York, Liverpool John Moores and Liverpool in the North of England. Since the year end St Andrews, Edinburgh Napier and Heriot-Watt in Scotland and Sheffield Hallam in the North of England have also become university partners, taking the total to 18
- Expansion from a single office in the Midlands to 6 offices across the Midlands, the North of England and Scotland, employing 60 people

Introduction

I am delighted to welcome Mercia Technologies PLC shareholders to the second Annual Report and my first as the Group's new Chair having recently succeeded Ray Chamberlain.

Ray is one of the co-founders of Mercia and a successful long-term technology entrepreneur. Having reached 70 years of age this year and seen the Group establish itself as a leading regional technology investor, Ray has decided that he can best contribute to the continuing development of the Group solely as a Non-executive Director. I look forward to chairing the Board as Mercia moves to the next stage of its development as a leading regional technology investor and funder of exciting young businesses, seeking seed, early stage and growth capital.

"In the last year Mercia Technologies has continued to successfully execute against each of its IPO strategic objectives"

Susan Searle
Non-executive Chair

In its first full year as an Alternative Investment Market ("AIM") listed company Mercia Technologies has continued to successfully execute against each of its IPO use of funds strategic objectives, namely:

- To invest circa 70% to 80% of the net IPO placing proceeds of £66.0million into Mercia direct investments – both new and existing companies which have met the criteria to become direct investments from Mercia's own balance sheet cash resources, more generally referred to as Mercia's 'Emerging Stars'
- To acquire the remaining 80% interest in The Mercia Fund 2 Limited Partnership – which is now being dissolved and the underlying portfolio of investments and cash have been transferred to Mercia to consolidate the Group's directly owned stakes in those companies, such as the profitable and cash generative Allinea Software
- To acquire complementary regional investment vehicles – the acquisition of Enterprise Ventures Group Ltd ('Enterprise Ventures') has fulfilled this near-term objective
- To build out the Group's platform by the recruitment of experienced investment and commercialisation professionals
- For general working capital purposes

The notable acquisition of Enterprise Ventures, for an initial consideration of £9.0million plus acquired cash of £2.0million, has enabled Mercia to expand its regional footprint and talent pool of investment and commercialisation professionals and has also considerably widened the pipeline of potential new direct investment opportunities, as a result of the numerous investee companies already supported by Enterprise Ventures' circa £200.0million of equity and debt funds under management. Enterprise Ventures currently has approximately 115 companies across its third party equity fund portfolios.

Mercia's third party portfolio consists of over 45 existing young technology businesses held by the Enterprise Investment Schemes ("EIS") and Seed Enterprise Investment Schemes ("SEIS") funds, which are managed by its wholly owned subsidiary, Mercia Fund Management Limited, and Mercia's own direct investment portfolio which has grown from 14 to 22 direct investments at a fair value of £38.1million as at 31 March 2016 (2015: £24.6million). Combined with the Enterprise Ventures portfolio, the enlarged Group has a strong pool of existing and future investment opportunities from which to create medium-term incremental shareholder value returns. During the year the Group invested £12.6million (2015: £11.7million) net in 16 direct investments, of which six are new Emerging Stars. The prior period financial comparatives are from the date of Mercia's admission to AIM on 18 December 2014 to 31 March 2015, a period of approximately 3½ months. The three Executive Director reviews contained within this Annual Report provide more detailed information on the 'Mercia Model' and the direct investment portfolio progress that has been made during the financial year.

Group Board and staff

During the year under review we have further strengthened the Board with two new appointments. Matthew Mead joined as Chief Investment Officer in May 2015, bringing a successful investment track record from his former senior roles at 3i plc and NESTA. Matthew leads the Group's team of 24 equity investment professionals as well as having oversight and overall responsibility for the Group's investment portfolios – both third party and direct investments. Jonathan Diggines joined the Board on 9 March 2016 as an Executive Director. Jonathan is the former Chief Executive of Enterprise Ventures and has a successful investment track record, having built Enterprise Ventures into a leading regional investment business, supporting over 150 businesses with equity funding. He previously held senior positions with both Murray Johnstone Private Equity and Aberdeen Asset Management. Jonathan's new role sees him assume overall responsibility for all of Mercia's third party fund raising, including Mercia's annual EIS/SEIS growth funds as well as new technology, growth and loan fund mandates. Jonathan is already playing an active role on Mercia's Board and I welcome both him and all Enterprise Ventures' employees to the Mercia team.

The enlarged Board remains committed to ensuring that a robust corporate governance structure and ethos exists. The combination of four Executive Directors and four Non-executive Directors, the latter all being former leaders of substantial and successful businesses, strikes an effective balance for a group of Mercia's current size and complexity. As a consequence of my recent appointment as Non-executive Chair there have also been a number of other changes to the composition of the Audit, Remuneration and Nominations Committees. Martin Lamb has become Chair of the Audit Committee, Ian Metcalfe remains Chair of the Remuneration Committee and I will chair the Nominations Committee. All four Non-executive Directors will sit on all three committees, to provide continuity across all areas of non-executive responsibility.

In addition to our expanded Board, Mercia continues to build a team of highly capable investment and support professionals to enable the Group to achieve its medium-term strategic objectives. I should like to record my thanks to all of them for their dedication and total commitment.

Outlook

Mercia Technologies' investment momentum has continued into the new financial year, including completing its first investment into an Enterprise Ventures portfolio company, Concepta Diagnostics. We expect further near-term direct investment opportunities from Enterprise Ventures third party funds under management, having already achieved the requisite commercial milestones which satisfy Mercia Technologies' direct investment criteria.

The past year has been about scaling the 'Mercia Model' and building the direct investment portfolio. The current year will focus on supporting those companies to make progress towards value inflexion, while continuing to seek out new early stage investment opportunities from the Group's expanding network of university partnerships and other established deal flow networks. As with all early stage investments, the path to value creation will not always be linear and straightforward. Patience is required, as is the experience of Mercia's Investment Directors in building strong investee company management teams for the stage of development that each investment is at, and beyond.

The Board continues to monitor the impact of the result of the UK referendum on Mercia Technologies. The Group has considerable liquidity and will manage its direct investment activity to balance the needs of its investee companies and of the Group itself.

The successful integration of Enterprise Ventures into Mercia Technologies and the shared experiences, wisdom and track records of the combined investment team bodes well for the future. I look forward to reporting on further positive progress at our next reporting date.

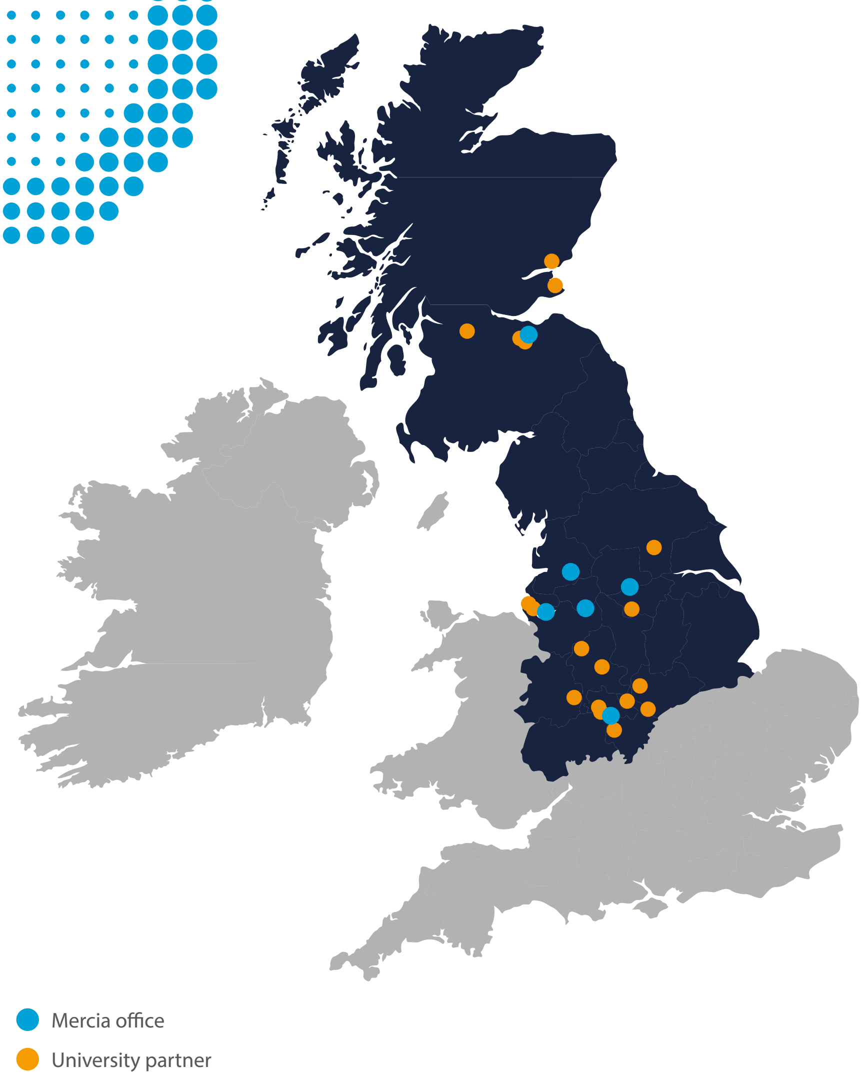
Susan Searle
Non-executive Chair
29 June 2016

Where we focus

Highlights

During the past 12 months Mercia has laid the foundations for a sustainable investment business executing against the following strategic intents:

- Build a balanced portfolio of 35 to 45 direct investments at any one time with material equity stakes typically of 20% to 40%
- Build a local presence in the UK regions of the Midlands, the North of England and Scotland to access high quality deal flow from university sources and local networks in a less competitive environment, compared with London and the South East of England
- Increase third party funds under management, generating fee income to contribute towards the Group's operating costs and supply a sustainable, de-risked portfolio for direct investment purposes over time



Direct investment key facts

The direct investment portfolio continues to grow and the Group will maintain a disciplined balance of sector coverage and stage of development.

By portfolio number

- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials & Manufacturing/Engineering
- Life Sciences & Biosciences

By portfolio value

- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials & Manufacturing/Engineering
- Life Sciences & Biosciences

By stage of revenue generation

- Early stage
- Early revenues
- Revenue growth
- Profitable/within 12 months of profitability

Top 15 direct investments (including the acquired Mercia Fund 2 holdings)

	Holding as at 31 March 2015 %	Fair values as at 31 March 2015 £'000	Portfolio composition 31 March 2015 %	Holding as at 31 March 2016 %	Fair values as at 31 March 2016 £'000	Portfolio composition 31 March 2016 %
Science Warehouse Ltd	62.6	12,650	51.4	62.6	12,650	33.2
nDreams Ltd	32.8	1,909	7.8	40.0	4,721	12.4
VirtTrade Ltd	21.2	1,750	7.1	28.4	2,575	6.7
Allinea Software Ltd	20.0	1,902	7.7	16.6	1,916	5.0
Smart Antenna Technologies Ltd	8.4	149	0.6	29.5	1,827	4.8
Edge Case Games Ltd	–	–	–	21.2	1,810	4.8
Soccer Manager Ltd	22.4	999	4.1	29.9	1,599	4.2
Impression Technologies Ltd	–	–	–	18.6	1,500	3.9
Crowd Reactive Ltd	11.9	500	2.0	28.3	1,500	3.9
LM Technologies Ltd	21.9	821	3.3	37.1	1,392	3.7
Warwick Audio Technologies Ltd	16.8	396	1.6	65.2	1,348	3.5
Oxford Genetics Ltd	–	–	–	34.7	1,150	3.0
PsiOxus Therapeutics Ltd	1.6	897	3.6	1.6	1,137	3.0
Ton UK Ltd t/a Intelligent Positioning	–	–	–	14.3	1,000	2.6
The Native Antigen Company Ltd	31.3	529	2.1	35.6	646	1.7
Other direct investments	–	2,115	8.7	–	1,372	3.6
	N/A	**24,617**	**100.0**	**N/A**	**38,143**	**100.0**

The majority of the portfolio value rests in the top 15 (of 22) direct investment assets, with a balanced spread across sector and stage of development, as shown in the graphics above. Within the top 10 investments, we hold equity stakes ranging from 17% to 63% but with the majority keeping to Mercia's 20% to 40% target. The remaining equity is typically held by founding management and Mercia's third party funds. Now that Mercia has built material stakes in a number of its leading investments, it expects in the forthcoming year to increase its syndicate investor numbers to both provide industry relevant input and external validation of the respective portfolio holding value, the first notable example of this approach being Kingsoft (the large Chinese listed software developer) in Edge Case Games.

The Mercia Model

The following summarises the significant progress made during the past year and the foundations for a strong future of value creation:

22
direct investments
Known as 'Emerging Stars' by Mercia Technologies

14
university partnerships
Complementing Mercia's regional presence

circa £220.0m
third party funds
Under management

circa 150
third party equity investments
Focusing on high growth innovative businessess

£30.9m
cash
Held on the balance sheet for direct investments

track record
of value creation
10 IPOs including Blue Prism, Xeros, Abzena and Optibiotix

value creation
- Accelerated NAV growth potential
- Portfolio revenue growth
- Cash-to-cash strategic trade sales or IPOs
- Sustainable investment model

Enterprise Ventures in numbers

115
equity investments
Focused on high growth innovative businesses

£200.0m
institutional funds
Under management

4
offices
Offering venture capital and business loans across the North of England

£4.5m
turnover
Trading profitably

32
staff
With in-depth and relevant industry experience

9
technology IPOs
Established exit track record

Corporate activity

At Mercia's listing on AIM in December 2014, of the £66.0million net raised, the stated use of funds were:

- Circa 70% for investing in existing direct investments and making new direct investments
- Circa 30% to be used for working capital, regional expansion and selective acquisitions of complementary investment businesses

Following an extensive review of almost 40 funds and fund managers, Mercia acquired the highly complementary investment business, Enterprise Ventures Group Ltd ('Enterprise Ventures'), on 9 March 2016.

Enterprise Ventures was acquired for an initial consideration of £9.0million (and an amount equal to Enterprise Ventures' net cash at completion which was £2.0million) of which £8.3million was in cash and £0.7million was in Mercia shares (with an 18 month share sale lock-in). In addition, there is a further £2.0million deferred consideration payable in Mercia shares contingent upon at least £80.0million of net new fund mandates being raised within 2 years of completion. To the extent payable, the deferred consideration shares have an additional 12 month share sale lock-in. The acquired group manages both equity and debt funds across the North of England, via its 2 wholly owned subsidiaries Enterprise Ventures Ltd ("EV") and Enterprise Ventures Business Loans Ltd ("EVBL").

Soccer Manager is an example of an Enterprise Ventures portfolio company which originally received debt finance via Enterprise Ventures' Rosebud fund and which went on to receive an equity investment from Mercia's third party funds in July 2014, before becoming a Mercia Technologies direct investment in March 2015.

Potential Emerging Stars in the Enterprise Ventures portfolio (built up over a 12 year period) which were identified pre-acquisition are now working their way through the detailed Mercia screening process, to become direct investments. The first example of this is Concepta Diagnostics, which became a direct investment post year end.

Third party funds – key facts

Following the acquisition of Enterprise Ventures, combined with Mercia's own third party funds, the enlarged Group now has circa £220.0million of funds under management comprising:

- National
  - Tax efficient funds (Enterprise Investment Scheme ("EIS") and Seed EIS)
  - SME loan fund
- Regional
  - Midlands:
    - Evergreen seed fund for West Midlands universities (Mercia Fund 1)
    - NHS seed fund
  - North of England:
    - Seed, early stage and growth investment funds
    - Rosebud, North West Fund for Mezzanine and other debt funds

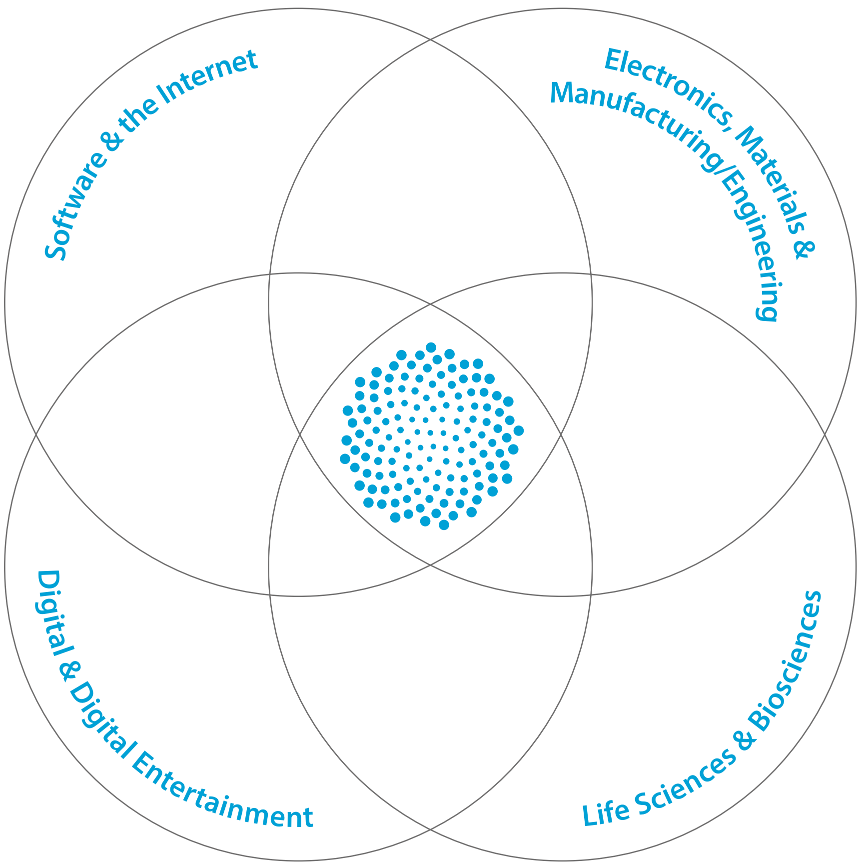
Mercia only makes a direct investment following an exhaustive screening and due diligence process from opportunities arising via the Group's third party funds:

- During the year (excluding the recent Enterprise Ventures acquisition) Mercia:
  - Received circa 700 approaches seeking investment
  - Added 14 new companies to the third party funds portfolio (2% of approaches)
  - Has built 53 companies within its EIS/SEIS third party funds under management
  - Invested in 6 new Emerging Stars (circa 13% of portfolio companies in the funds under management)

- Across the newly enlarged Group (including the recent Enterprise Ventures' acquisition):
  - A balanced portfolio of 22 direct investments (grown from 14 last year)
  - Approximately 1,700 approaches for investment during the past year
  - During the preceding 12 month period, over £30.0million of third party funds capital invested in 49 companies

£70.0million funds raised (gross proceeds)		Since IPO
• Invest into existing direct investments • Increase number of new direct investments from 11 at IPO	70% of funds raised	**Scaling the Model** £24.3million net invested in new and existing direct investments. 22 direct investments held at year end Includes 6 new Emerging Stars in the year to 31 March 2016
• Regional expansion from 1 office in the Midlands and 9 university partnerships • Recruitment of experienced staff • Selective, complementary acquisitions • Working capital	30% of funds raised	New office in Scotland, opened in October 2015 5 new university partnerships secured: • Abertay, Liverpool, Liverpool John Moores, Strathclyde and York plus 4 more since the year end: Heriot-Watt, Napier, St Andrews and Sheffield Hallam Investment team strengthened from 5 to 32 Acquisition of Enterprise Ventures for up to £11.0million (and an amount equal to Enterprise Ventures' net cash at completion which was £2.0million) in March 2016: • 4 new regional offices in Preston, Liverpool, Manchester and Barnsley • 32 experienced staff taking Mercia to 60 • Expanded funds under management to circa £220.0million • Acquistion of a profitable, cash generative business contributing to enlarged Group's medium-term objective of building a cost neutral investment platform

Our Sector Focus



Our journey so far

Jan 2000

Launch of MF1

West Midlands Enterprise ("WME") launched Mercia Fund 1 ("MF1"), a £4.0million evergreen seed fund providing support and capital to spinouts from the universities of Birmingham and Warwick.

Jan 2006

8 university partnerships

Mercia Fund Management ("MFM") expanded university partnerships to 8.

Jan 2007

Collaboration with Forward Group

Forward Group established a collaboration with WME on the basis of their common interest in supporting and investing in the region's leading university spinouts.

Jan 2010

Mercia Fund Management created

Management buyout led to the creation of the third party fund manager Mercia Fund Management ("MFM").

Jan 2012

Launch of the Complete Capital Solution

Forward Group became a shareholder in MFM and MFM launched the full funding model of early stage investment from third party funds to follow-on direct investment (the Complete Capital Solution).

Apr 2012

First EIS/SEIS fund raised

MFM raised the first hybrid Enterprise Investment Scheme and Seed EIS fund to come on to the market.

Jan 2013

Relocation of offices

MFM relocated from Birmingham to Forward House in Henley-in-Arden, West Midlands.

Apr 2013

9 university partnerships

MFM increased the number of university partnerships to 9 across the Midlands.

Dec 2014

Mercia Technologies PLC lists on AIM

Mercia Technologies PLC listed on AIM, raising £70.0million. MFM became a wholly owned subsidiary of Mercia Technologies, providing Mercia with a Complete Capital Solution for technology businesses.

Oct 2015

New office and partnerships

Mercia opened an office in Edinburgh. It also began Scottish partnerships with the University of Strathclyde and Abertay University as well as 3 partnerships across the North of England with the universities of York, Liverpool and Liverpool John Moores, taking its university partnerships to 14.

Mar 2016

Acquisition of Enterprise Ventures

Mercia acquired Enterprise Ventures, creating a go-to provider of early stage and growth capital in the Midlands, the North of England and Scotland operating from 6 regional offices.

We focus, we build and we deliver

During a period of scarcity of early stage capital combined with caution by the public markets, Mercia's approach with third party funds supplying early stage investment, combined with balance sheet finance for later stage (or series A onwards) investment, provides a differentiated and de-risked model.

Focus

- **UK regions –** Mercia is a national investment group with a local presence. Through its regional offices and university partnerships (which currently supply approximately a third of its investments) it is able to access high quality investment prospects with reduced deal flow competition
- **Informed –** We back businesses in sectors within which we have a deep understanding
- **Relatively modest capital needs –** We seek businesses with lower than typical capital needs of £5.0million to £10.0million in total
- **Complete Capital Solution –** We seek to reduce many of the risks associated with early stage businesses via Mercia's third party funds prior to making direct investments. This approach also saves the portfolio management teams time and stress by knowing that if they are hitting the pre-agreed commercial milestones, they need only come to Mercia for their next funding round

Build

- **Proprietary deal flow –** This is gained through the flexible sourcing of investment opportunities via Mercia's 14 university partnerships (expanded to 18 post year end) and in excess of 400 businesses being built and developed within its equity and loan funds under management
- **People –** From an early stage we build leading management teams within the portfolio companies. Mercia's investment team has a track record of 10 investee company IPOs and substantial industry and venture experience. Mercia's own Board comprises individuals who have built, grown and exited substantial businesses themselves, which brings valuable insight and wisdom to help shape the strategic direction of both the Group and the individual direct investments
- **Rapidity to revenue –** From an early stage we build, validate and commercialise the technology proposition being backed
- **Risk reduction:**
  - *Financial risk*. We believe that an undercapitalised business is a significant risk factor to optimised returns. Via its Complete Capital Solution, Mercia ensures that businesses are financed appropriately at each stage of their journey
  - *Time risk – patience*. Investing in start-ups through to a profitable exit can take 7 to 15 years yet many investors lack the patience or capital to support businesses for the entirety of their journey. Mercia's Complete Capital Solution supports early stage companies (for anything from 6 months to 8 years) via its third party funds before a small percentage qualify for direct investment as Emerging Stars. At this point we recognise that it may still take a further 3 to 7 years before we will realise an exit from an investment

Deliver

- **Balanced portfolio –** Across both stages of development and Mercia's 4 distinct technology sectors
- **Net Asset Value ("NAV") improvement –** We target building equity stakes of 20% to 40% within the direct investment portfolio. As these businesses then begin to scale, we expect this to be reflected in fair value improvements
- **Near to medium-term exits –** We seek strong returns for both Mercia's shareholders and fund investors

Underserved regions of the UK

Mercia is building infrastructure and investment expertise to capitalise on the underserved regions of the UK. The table opposite, using publicly available data, compares enterprise activity and capital deployed across the UK.

Regional investment data

Region	Percentage of total number of high growth enterprises (2015)*	Percentage of total number of UK venture investments (2015)*	Regional finance challenge	Average deal size per enterprise (2014/15)** and ***
West Midlands	8.5%	4.0%	0.47	£3.6m
East Midlands	6.5%	2.8%	0.43	£3.5m
Scotland	6.4%	6.1%	0.95	£2.9m
North East	3.0%	4.7%	1.57	£0.7m
Yorkshire & Humber	7.1%	3.5%	0.49	£3.3m
North West	11.1%	6.3%	0.57	£3.7m
London & South East	35.3%	58.6%	1.66	£5.7m

At the start of 2015 the Business Population Estimates published by the Department for Business Innovation & Skills ("BIS") reported a record level of private sector businesses totalling 5.4million, with small and medium sized enterprises ("SMEs") accounting for more than 99% of the total. However, the challenge of financing UK SMEs varies across the country from region to region. The table above demonstrates the significant undersupply of capital within the regions. The figures in the blue boxes represent the UK regions of focus for Mercia and the 'Regional finance challenge' is expressed as less than 1 being more difficult, 1 being expected and more than 1 being easier.

The data shows that London & South East, which is not one of Mercia's focus regions, is fiercely competitive for investors and expressed at a value of 1.66. This is significantly higher than Mercia's target regions of activity, all of which are rated under 1 and so deemed to be more difficult to raise finance and therefore less competitive for investors.

These are:

West Midlands	0.47
East Midlands	0.43
Scotland	0.95
Yorkshire & Humber	0.49
North West	0.57

2 clear conclusions can be drawn from the above:

1. Enterprises outside of London & South East find it markedly harder to raise investment, a reflection, we believe, of an undersupply of capital.
2. Typically these enterprises also secure smaller levels of investment, which is either a reflection of less capital available or businesses with lower capital requirements.

* Data taken from http://british-business-bank.co.uk/wp-content/uploads/2016/05/97-Small-Business-Equity-Investment-Tracker-Report.pdf

** Data taken from government published statistics (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494624/January_2016_Commentary_EIS_SIES_Official_Statistics.pdf

*** Taken from BVCA stats (http://www.bvca.co.uk/Portals/O/library/documents/IAR%20Atumn15.pdf

Complete capital and business model

Complete Capital Solution

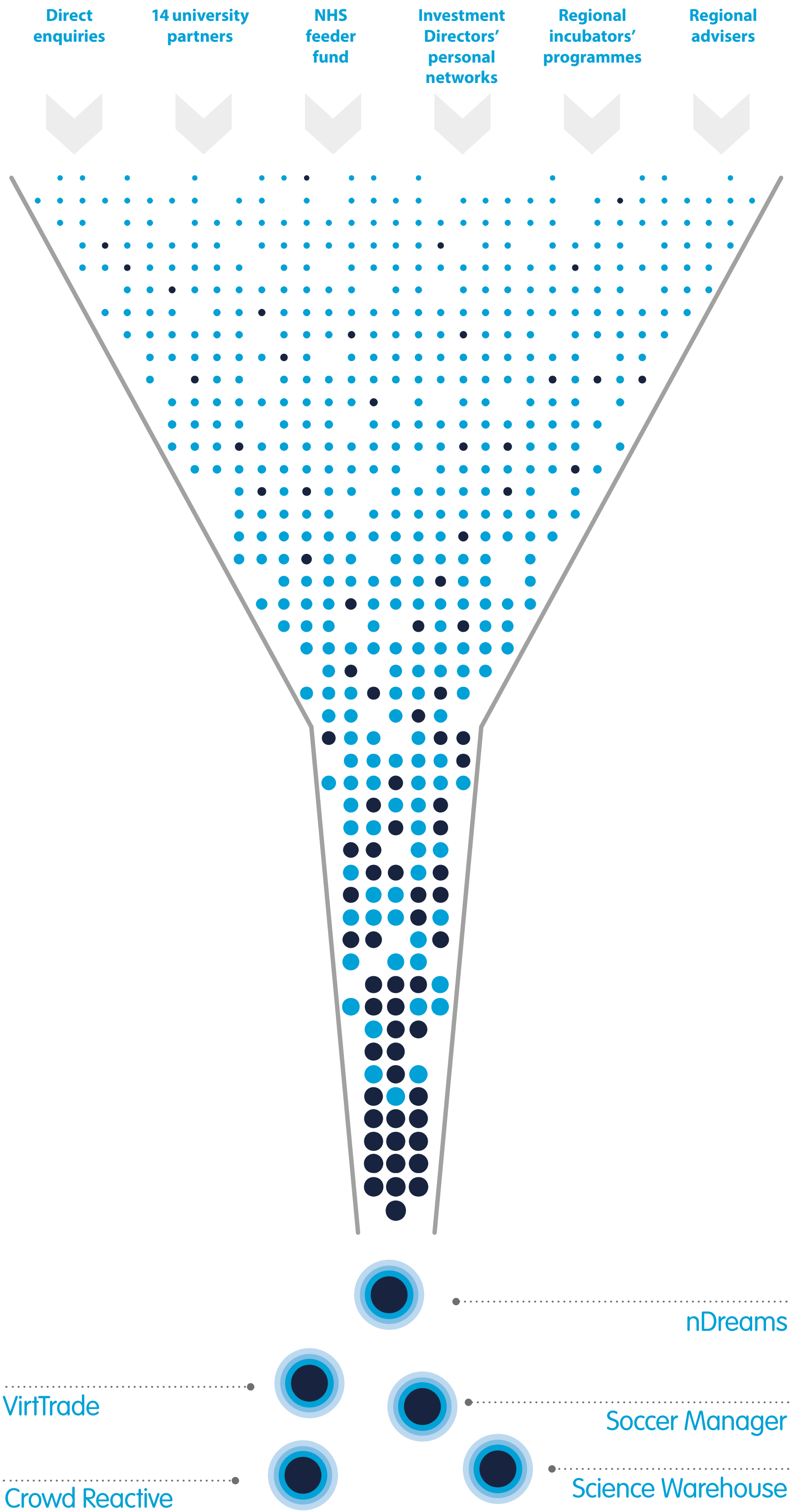
It is widely accepted that global technology-based enterprises can take 7 to 15 years from creation to a cash exit for their investors.

Mercia's own model tackles this challenge head on and turns it into an advantage for its shareholders and fund investors. By first investing through tax efficient or public sector funds under management, we are able to absorb the initial high risk, early stage phase of a start-up's development when assembling a management team, building out the service or product offering and testing the business model poses the greatest risk. At this point, for those companies achieving significant commercial traction, we then invest directly from our own balance sheet and scale the opportunity towards an exit, benefiting both Mercia's shareholders and the original fund investors.

This twin approach enables Mercia to take a perspective of up to 15 years from day 1 of investment to overall exit.

Business model

This model is focused on creating a balanced portfolio of innovative businesses (via third party funds) which creates a funnel of compelling investment opportunities for direct investment, which are then supported through to exit.



Deal flow sources

Last year across the newly enlarged Group (including Enterprise Ventures) we received approximately 1,700 approaches for investment

Mercia's third party funds under management

We currently have circa 150 equity investments

Selected seed funding

Third party portfolio companies may receive several rounds of seed/early stage investment

Filter for Emerging Stars

We monitor and support the third party portfolio companies, helping to build both balanced management teams and a culture of revenue focus

Mercia direct investment

Each year we anticipate 5 to 10 companies becoming direct investments - our Emerging Stars

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Investment sectors

Mercia's direct investment activity is focused on sectors in which we hold deep sector knowledge and we invest where we believe we can create businesses with global growth prospects, but with relatively modest investment.

The 4 investment sectors are (with examples of portfolio companies described in the Chief Investment Officer's review):

Software & the Internet:
- Science Warehouse (Leeds University spinout)
- Allinea Software (Warwick University spinout)
- Crowd Reactive

Digital & Digital Entertainment:
(not typically associated with university research, with the exception of Abertay University):
- nDreams
- Edge Case Games
- VirtTrade

Electronics, Materials & Manufacturing/Engineering:
- Smart Antenna Technologies (University of Birmingham spinout)
- LM Technologies
- Impression Technologies (University of Birmingham and Imperial College spinout)
- Warwick Audio Technologies (Warwick University spinout)

Life Sciences & Biosciences:
- Oxford Genetics
- The Native Antigen Company (University of Birmingham spinout)

University partners

As a leading university commercialisation partner of choice in the UK with 14 university partnerships on a non-exclusive basis as at 31 March 2016 (expanded to 18 post year end), we partner with research institutes that match Mercia's sector expertise and investment focus. Collectively these university partners received circa £217.0million in Research Council funding in 2014/15 into the areas of research important to investment activity[1]. Approximately 30% of Mercia's investment activity via its third party funds has been into university spinouts.

The following are research areas relevant to Mercia's investment activity where we seek to access expertise and spinout opportunities:

Abertay University:
- Creative industries
- Cyber security

Aston University:
- Biomedical sciences
- Clinical data and computer sciences

Birmingham City University:
- Computing
- Health

University of Birmingham:
- Engineering, electronics and physical sciences
- Medical and dental sciences

Coventry University:
- Applied biology
- Materials research

Keele University:
- Biosciences

University of Leicester:
- Biosciences

1 https://www.timeshighereducation.com/sites/default/files/breaking_news_files/success-rates-2014-15.xlsx

University of Liverpool:
- Advanced materials
- Biosciences

Liverpool John Moores University:
- Engineering and technology

Staffordshire University:
- Creative industries
- Healthcare

University of Strathclyde:
- Healthcare
- Engineering

University of Warwick:
- Healthcare
- Materials

University of Wolverhampton:
- Engineering

University of York:
- Healthcare

The 4 university partnerships that we have announced since Mercia's year end provide access to the following technologies:

St Andrew's University:
- Biosciences

Heriot-Watt University:
- Engineering
- Life sciences
- Physical sciences
- Computer sciences

Napier Edinburgh University:
- Creative industries
- Computing
- Engineering

Sheffield Hallam University:
- Biosciences
- Materials and engineering

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Focused on delivering

Mercia Technologies is successfully blending the provision of third party funds (providing equity and debt) across the UK regions with the ability to selectively provide direct investment to its Emerging Stars within high growth investment sectors.

"Mercia is focused on building valuable businesses with high growth potential in sectors we know well"

Dr Mark Payton
Chief Executive Officer

In the past 12 months we have continued to build material equity stakes in direct investments and we have grown a sustainable investment infrastructure capable of mitigating much of the early stage risk of investing in start-up businesses. Mercia's long-term goal is to achieve above industry returns for its direct investments – we believe this in turn will deliver significant benefits for both shareholders and fund investors.

Performance

Mercia's established Midlands-based investment model was listed on AIM in December 2014 with the stated intent of building a presence in other specified UK regions, expanding university partnerships, increasing funds under management and adding to the direct investments portfolio. For Mercia's first full year trading period, I am pleased to report that it has grown its university partnerships from 9 to 14, funds under management from £20.0million to approximately £220.0million, local presence from 1 to 6 offices and direct investments from 14 to 22. Post year end direct investments stand at 23 following the recent investment into Concepta Diagnostics (the first Emerging Star from the Enterprise Ventures portfolio) and university partnerships have grown to 18.

During the past year, Mercia Technologies and Enterprise Ventures have collectively invested approximately £30.0million from third party funds under management into 49 new portfolio companies that could provide future direct investment opportunities and, excluding the post year end investment into Concepta Diagnostics, £12.6million net into 16 direct investments (6 new Emerging Stars and 10 existing direct holdings). Through the investment activities across the Group during the year under review, £1.8million of revenue was generated to offset in part the Group's operating costs, resulting in an overall loss for the year of £1.7million and net assets at year end of £80.0million. The Group's investing activities resulted in net fair value gains of £0.9million.

Through a highly focused acquisition process concluding on 9 March 2016, we acquired the profitable fund management business Enterprise Ventures Group Ltd, which has dovetailed very well into Mercia's hybrid investment model. The acquisition of Enterprise Ventures propels Mercia towards fulfilling all of its key strategic goals.

Strategic goals

In order to maximise investment returns to shareholders and fund investors, the following are Mercia's key value drivers in building a sustainable investment business:

A. The market
- Access proprietary deal flow from the underserved UK regions and local universities to build a portfolio of companies within its third party funds under management
- Utilise Mercia's ability to operate a Complete Capital Solution
- Focus on making direct investments in key growth sectors where we have a deep understanding

B. Direct investments
- Build material equity stakes (target 20% to 40%) in companies with relatively low capital needs
- Seek to bring in syndicated investment or near to medium-term exit events to deliver NAV growth
- Ensure balance across the portfolio in terms of number and value of investment by sector

C. Funds under management
- Invest to build a sustainable portfolio, de-risking potential future direct investment opportunities
- Revenue generated will contribute to offsetting the operating costs of the Group

Operations

University partnerships and regional offices are an important part of deal flow as they provide a focal point for Mercia's investment activities across its selected UK regions. Mercia now benefits from 60 employees providing integrated competence in investment activity, fund and financial management.

Key performance indicators

The key performance indicators ("KPIs") that have been monitored during the year ended 31 March 2016 are set out in the table below.

1.
Growth in value of the Group's portfolio through investment activity

£12.6m

How it was measured

Measured in terms of the net cash cost of direct investments made by the Group

Progress

The Group has demonstrated growth in the value of its portfolio through investment activity

2.
Growth in value of the Group's portfolio through fair value gains

£0.9m

How it was measured

Measured in terms of the net gain arising in the value of the portfolio using established valuation methodologies based on the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG")

Progress

Reflects a year of equity stake building as predominantly the sole provider of investment capital to a relatively young portfolio

3.
Number of companies invested in during the period

16

How it was measured

Measured in terms of all companies invested in (both existing and new) during the year

Progress

The Group has demonstrated growth in its direct investment portfolio through the number of companies in which it has invested

4.
Cash balances and short-term liquidity investments held by the Group

£30.9m

How it was measured

Measured in terms of cash, cash equivalents and short-term liquidity investments held by the Group

Progress

The Group has applied its policy of ensuring preservation of shareholders' cash for future investment and working capital purposes, while investing £12.6million net into new and existing Emerging Stars

5.
Third party funds under management

circa £220.0m

How it was measured

Measured in terms of fund management contracts secured and under active management

Progress

Includes fund management contracts (equity and loan finance) raised and managed by Enterprise Ventures

Principal risks and uncertainties

The Board considers that the risks detailed below represent the key potential obstacles to achieving the Group's strategic objectives. The Board regularly reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified. There could be additional risks and uncertainties which are not known to the Board and there are risks and uncertainties which are currently deemed to be less material, which may also adversely impact performance.

Risk	Possible consequences	Mitigation
The majority of the direct investment portfolio businesses are at a relatively early stage in their development and as a result carry inherent risks.	Early-stage technology companies may not be able to attract and retain appropriately skilled and experienced staff; they may not be able to attract sufficient funding to achieve their commercial objectives; their technology niche may be overtaken by competing technologies; take up of their product or service offering in their chosen markets may not occur at levels sufficient to generate positive cash flow and create shareholder value.	Almost all of the Group's direct investments thus far are companies which have emerged from the funds under management by the Group's wholly owned subsidiary, Mercia Fund Management Limited ("MFM"). MFM has a fail fast policy, which means that early-stage businesses which do not achieve commercial traction within a reasonable time frame are closed down. MFM portfolio businesses which do achieve commercial milestones and meet the Group's other investment criteria receive direct investment. This process has two mitigating advantages. Firstly, companies which do not achieve commercial traction, or do not have a sufficiently experienced and capable management team, do not receive direct Group investment. Secondly, the 'real-time' due diligence being undertaken by MFM's investment team during the investee company's early stage of development means that the Group is already familiar with the business, its commercial prospects and its management team before it is presented to the Group's Board (which acts as Mercia's investment committee) with a recommendation for direct investment. These risk mitigation filters are also now being applied to potential Emerging Stars within the Enterprise Ventures portfolio.
The value of the Group's direct investment portfolio may be dominated by a single or limited number of companies.	A large proportion of the overall value of the direct investment portfolio may at any time be accounted for by one, or very few, companies. There is a risk that one or more of the portfolio businesses experience financial difficulties, become insolvent or suffer from poor market conditions and if, as a result, their value were to be adversely affected, this would have a material detrimental effect on the overall value of the Group's investment portfolio.	The Group currently directly invests across 4 sectors and over time will seek to balance the total portfolio by quantum and value by sector, as the total number of direct investments and their values grow. However, it is the Group's expectation that from time to time, depending on the speed of development of portfolio companies and the attractiveness of certain technology sectors, there may be investments that dominate the total portfolio by value.
Proceeds from the trade sale or IPO of direct investments may vary substantially from year to year.	Such large possible cash flow variations could have a materially adverse effect on the financial condition and prospects of the Group.	The Group maintains sufficient cash resources to manage its day-to-day and investing activities, irrespective of fluctuations in the timing of investment disposals.
The Group's direct investments may not have exclusive rights on all matters in relation to the intellectual property being exploited by the business and could ultimately lose their usage rights under certain circumstances.	A proportion of the direct investment portfolio companies' intellectual property rights relate to technology which was originated in the course of research conducted in, and initially funded by, UK universities. Although the Group maintains collaborative relationships with all of its university partners, it cannot be certain that all such portfolio companies will be able to make use of the intellectual property indefinitely.	Approximately 55% of the direct investment portfolio comprises companies that are not university spinouts. Where appropriate, the Group's portfolio companies engage intellectual property protection specialists. Intellectual property due diligence is one of the reviews which the Group undertakes as part of its pre-investment appraisal process.

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
The Group and its portfolio companies are subject to competition risk.	The Group operates a direct investment model which is similar in some respects to other investing groups and, as a result, may find itself in competition when new investment opportunities arise. In addition, the direct investment portfolio businesses are predominantly focused in the technology sector. The technology sector is intensely competitive on a global scale. Many of the portfolio businesses' competitors have greater financial, technical and other resources. Competition in the technology sector could materially adversely affect the prospects, financial condition and results of operations of investee companies.	The Group focuses its investing activities predominantly in the historically underserved regions of the United Kingdom, where competition for investing in new technology companies is less fierce. Companies in which the Group invests are chosen because they are in large growth markets, have developed disruptive technologies and have already achieved commercial traction.
The Group may not be able to continue to retain or attract experienced, skilled and successful Board and Investment Directors and support staff.	The Group depends on the experience, skill and judgement of key staff in, amongst other things, selecting possible future successful businesses in which to invest. The Group also depends on their network of deal flow introducers to the MFM, Enterprise Ventures ("EV") and Enterprise Ventures Business Loans ("EVBL") funds. The Group's future success depends in part on the continued service of these individuals as well as the Group's ability to recruit, retain and motivate additional talented personnel.	The Group seeks to reduce this risk by maintaining an entrepreneurial working environment and by offering balanced and competitive remuneration packages to all its staff. The Remuneration Committee has recently reviewed all senior salaries across the enlarged Group, in conjunction with advice from specialist remuneration consultants.
MFM, EV or EVBL may cease to be authorised by the Financial Conduct Authority ("FCA").	MFM, EV and EVBL are each authorised and regulated by the FCA as a small authorised UK Alternative Investment Fund Manager ("AIFM") (Sub-threshold). Should any of MFM, EV or EVBL cease to be authorised and regulated by the FCA as a small authorised UK AIFM (Sub-threshold), it would no longer be authorised to act as the investment manager of the respective MFM, EV or EVBL funds or, in the case of MFM, as the UK AIFM to the Group. If that was to occur, Mercia would: (i) lose one or more of its revenue streams; (ii) be required to appoint a replacement UK AIFM; and (iii) in the case of MFM and EV, lose one or more of the principal sources of deal flow for the Group.	The Group mitigates this risk by ensuring that MFM, EV and EVBL act at all times with integrity, honesty, skill, diligence and fairly in conducting their investing business activities. The Group regularly reviews the financial positions of MFM, EV and EVBL to ensure that adequate financial resources are maintained in accordance with FCA rules. The Group also ensures that each of MFM, EV and EVBL employs the resources and procedures that are necessary for the proper performance of their business activities and complies with all regulatory requirements applicable to the conduct of their business, so as to promote the best interests of the funds under management and the investors. The Group ensures that each of MFM, EV and EVBL communicate information to fund investors in a way which is fair, clear and not misleading. MFM, EV and EVBL communicate with the FCA in an open and cooperative way to provide regular reporting, notifications and disclosures.
The UK's future exit from the European Union may impact upon both the Group and its portfolio companies	Future European trade barriers may impact portfolio company growth prospects. Additional equity capital may be more difficult to raise.	Technology is a sector that will only increase in importance and works without national barriers. Many of the Group's direct investments have a global target customer base. The Group focuses on technology sectors which do not have large capital needs. The Group therefore has sufficient funds under management and balance sheet cash to exercise investment and operational flexibility.

Future developments and outlook

The Group anticipates that it will continue to execute its strategic plan, as set out in its Admission Document.

We are cognisant of the current macroeconomic climate both nationally (specifically with the recent referendum for the UK to exit from the EU) and globally, which in part casts some uncertainty over the pace of the global economic recovery. These trends may impact the general funding environment for young technology businesses in the near term. However, we believe that Mercia's hybrid investment model for such early stage businesses, typically already in revenue and with relatively modest capital needs, is the right approach to take in the current climate. As part of its diversified and balanced approach, Mercia benefits from a growing pool of exciting portfolio companies targeting global markets with a high percentage of their revenue deriving from exports and with leading commercial partners, distributors and customers including the likes of Aston Martin, Jaguar Land Rover, Nike, O2, MasterCard, Google, Apple, Samsung, Panini, Sony, Oculus and Steam. We have now established the foundations of a sustainable investment business with the breadth and depth to access new Emerging Stars in combination with an ever maturing existing direct investment portfolio. The current year will build on the last 12 months of strict focus and business development.

Although Mercia has yet to yield a material exit from any of its direct investments in its short time on AIM, we expect many of these businesses to yield significant technical, corporate and revenue milestones in the near to medium term and thus begin to demonstrate the real opportunity of delivering a material return for Mercia's shareholders and fund investors.

Corporate and social responsibility

Mercia is committed to conducting all of its business in an honest, ethical and socially responsible manner. The Group endeavours to provide a safe working environment for its employees, as well as to minimise its impact on the environment, in all its activities. The Group has appointed both health and safety and human resource managers to further its aims of providing a safe and inclusive working environment.

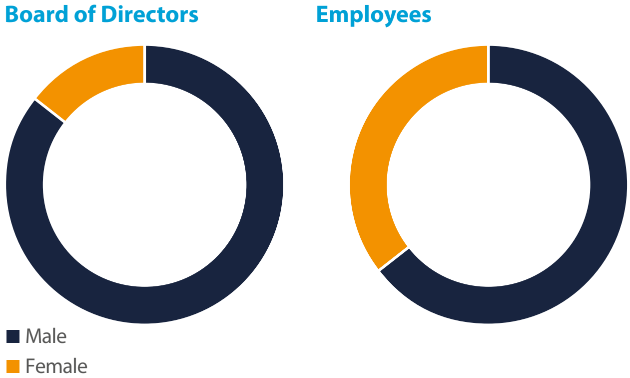
Business ethics

In all its activities, the Group aims to be commercial and fair, to maintain its integrity and professionalism and to have due regard for the interests of all of its investors, employees, suppliers and the businesses in which the Group invests.

Mercia seeks to operate as a socially responsible employer and has adopted standards and policies which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct that business in line with applicable established best practice. The Group takes a zero tolerance approach to bribery and corruption and has enacted procedures to prevent bribery. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses. The Group recognises that its employees are fundamental to its success and therefore is committed to encouraging the ongoing development of its staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, coaching and mentoring.

Employee diversity and employment policies

The Group is an equal opportunities employer and promotes diversity through the selection, training, development and promotion of employees. Mercia does not differentiate on grounds of gender, ethnicity, sexual orientation, religion or physical ability. For the year ended 31 March 2016, the Group employed an average of 24 (2015: 15) employees including its Board of Directors. A breakdown of staff by gender is shown in the graphic below.



Given the nature of the business, the Group believes that the principal human rights issues affecting the business relate to non-discrimination, gender equality and fair employment practices.

Health and safety

Staff and management at all levels are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The primary purpose of the Group's health and safety policy is to enable all members of staff to go about their everyday business at work, in the expectation that they can do so safely without risk to their health.

Environmental policy

Given the overall size of the Group and its office-based nature, Mercia considers the direct environmental impact of its employees to be relatively low. However, the Group is committed to operating its business in an environmentally responsible and sustainable manner and encourages its employees to reduce their impact on the environment in their day-to-day business activities.

Events after the balance sheet date

Other than the continuing pipeline of approved direct investments and new university partnerships, there have been no material events since the balance sheet date.

Approval

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer
29 June 2016

Portfolio overview

This has been an exciting year for Mercia Technologies PLC in developing its direct investment portfolio. In the last 12 months we have focused on building material equity stakes in the existing portfolio companies, and broadening the direct portfolio by selectively making investments into new Emerging Stars that we have previously invested in and guided through our third party funds under management.

"There are several very exciting businesses in our direct portfolio"

Matthew Mead
Chief Investment Officer

We have deployed a net total of £12.6million of capital in the last 12 months and added 6 new investments to the direct portfolio across Mercia's target technology sectors:

- Intelligent Positioning – cloud-based search engine optimisation data business;
- Edge Case Games – digital games business focused on bringing sci-fi games to both PC and mobile platforms;
- Impression Technologies – specialists in forming complex, high strength, lightweight, ductile components used in the manufacture of vehicles;
- Oxford Genetics – synthetic biology company specialising in DNA design, protein expression optimisation and cell line development technologies and services;
- LM Technologies – designs, develops and manufactures wireless modules and adapters; and
- PsiOxus Therapeutics – biotechnology company developing novel therapeutics that address cancer and other clinically unmet diseases.

In addition we have made further investments into 10 of Mercia's existing direct investments such as nDreams, Smart Antenna Technologies and Crowd Reactive, where we see the potential to build valuable businesses.

During the year we have also transferred the 9 trading investments previously held in Mercia Fund 2 across to become direct holdings on Mercia's balance sheet, 6 of which were already direct investments, so we have now been able to build our direct ownership positions in these companies, such as Allinea Software and PsiOxus Therapeutics.

We closed the year with a direct investment portfolio of 22 companies valued at £38.1million, which includes net fair value uplifts recognised in the year of £0.9million.

Currently the 15 leading investments, 11 of which are discussed in more detail in this review, account for 96.4% of the carrying value of the entire portfolio, with 6 being in the Software & the Internet sector and 4 in Digital & Digital Entertainment. The graphics opposite illustrate the weighting of the direct asset portfolio.

It remains Mercia's intention to actively balance investment activity across the sectors in which we focus, so that in time no single company or sector over-weights the portfolio. We are pleased with the progress we have made in this area over the last 12 months and will continue to make further progress on this objective in the year ahead.

We have had a successful year in the Mercia Fund Management managed funds where we have invested £5.4million including making first seed/early stage investments in 14 new businesses across the technology sectors, with 6 of these new transactions sourced from university spinouts. Sourcing of deals across target sectors and the work that we do with these businesses in the managed fund portfolio will continue to produce high quality, proprietary deal flow from which to make future direct investments.

The acquisition of Enterprise Ventures adds considerable breadth to Mercia's managed funds which over time will significantly add to the quality of the portfolio of Mercia Technologies. We are already progressing a number of direct investment opportunities from within the Enterprise Ventures portfolio. The acquisition also brings additional capability with some talented investment professionals, helping to strengthen each of the sector investment teams.

In the next 12 months we should see the continued development of the direct investment portfolio, new direct investments across the target sectors and high levels of investment activity in its managed funds, all of which will significantly enhance Mercia's pipeline of investment opportunities.

Matthew Mead
Chief Investment Officer
29 June 2016

Mercia direct investments by value
(March 2016)

Mercia direct investments by value
(March 2015*)

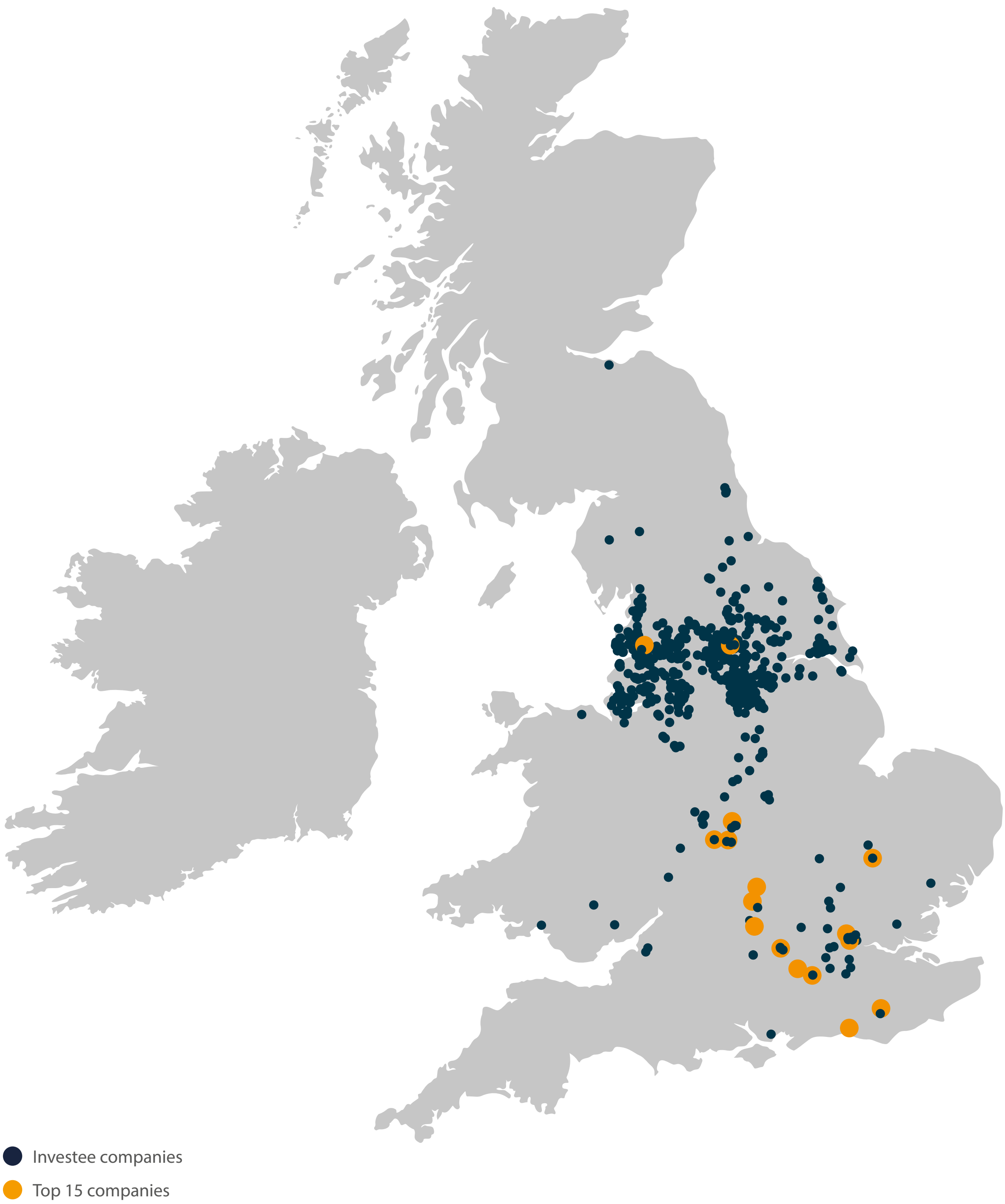
Mercia direct investments by number
(March 2016)

Mercia direct investments by number
(March 2015*)

■ Software & the Internet
■ Digital & Digital Entertainment
■ Electronics, Materials & Manufacturing/Engineering
■ Life Sciences & Biosciences

* The 31 March 2015 graphics depict the portfolio as if the former MF2 investments had been direct investments as at 31 March 2015

Although a national investment business, prior to listing on AIM, Mercia's focus had been in the Midlands and the M40 corridor. Since IPO, the Group has been scaling its operations to increase investment activity in the North of England and Scotland.



Software & the Internet

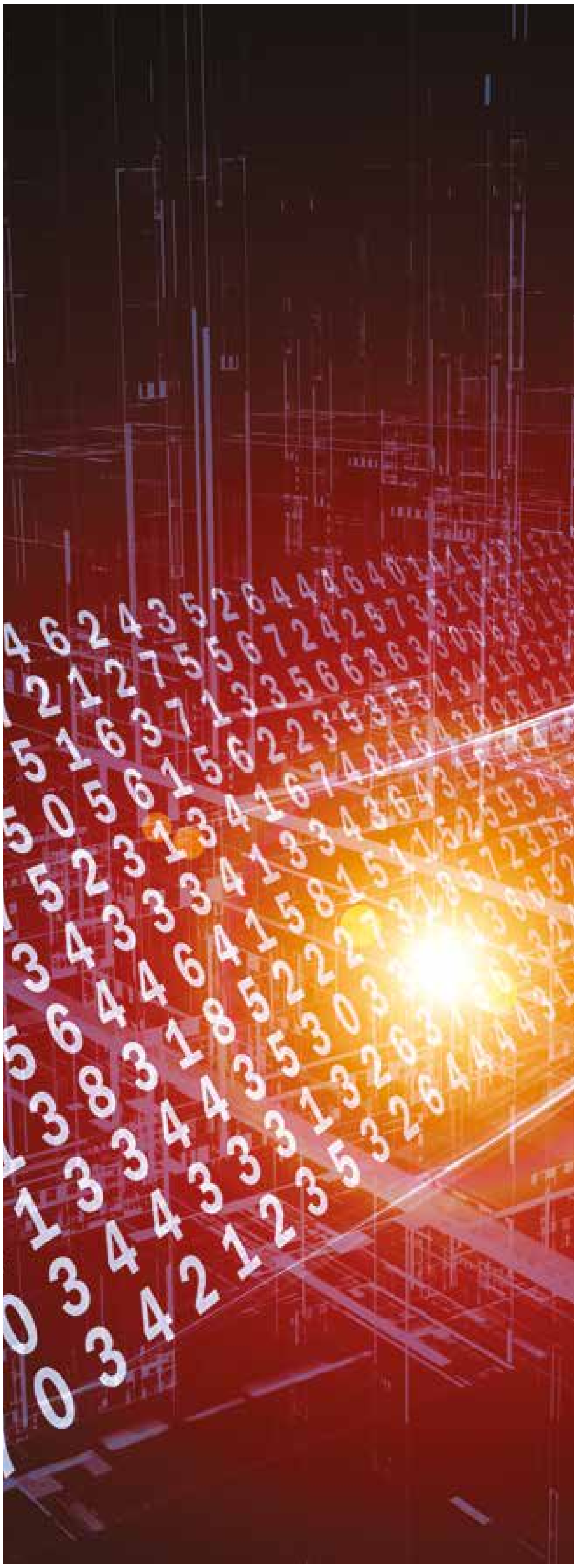
Rob Johnson
Investment Director, Software & the Internet

This investment sector is headed by Investment Director Rob Johnson and the team has been strengthened by the addition of Doug Stellman and Will Clark of Enterprise Ventures.

The global software market is huge and estimated by Reuters to be around $660.0billion[1]. Within this broad sector, Mercia has chosen to focus in the near to medium term on 4 attractive and growing sub-sectors: cloud software, marketing technology software, security software and artificial intelligence. In all of these areas the UK has established centres of excellence and a track record of producing global leaders. Each of the sub-sectors address significant market opportunities, for example Gartner estimates the size of the information security market currently to be around $75.4billion[2] and Bank of America Merrill Lynch expects the artificial intelligence market to be worth $70.0billion within the next 5 years[3]. We are creating networks in each of these areas and university relationships that will deliver great opportunities for early stage investments. Over time a number of these companies will emerge to become direct investments for Mercia Technologies.

For the year to 31 March 2016, Mercia invested £2.1million in this sector with 1 new Emerging Star from its managed funds, Intelligent Positioning, receiving direct investment. The Group has a total of £17.4million of asset value in this sector and 3 of the key assets are as follows:

1 http://uk.reuters.com/article/research-and-markets-idUKnBw195650a+100+BSW20140619
2 http://www.gartner.com/newsroom/id/3135617
3 http://www.ft.com/fastft/2015/11/05/robotics-ai-become-153bn-market-20-bofa/?ft_site=falcon&desktop=true



sciencewarehouse
www.sci-ware.com

Science Warehouse

As at 31 March 2016, the Group held a 62.6% interest in Science Warehouse at a fair value of £12.7million, which is valued at the price of the last round of investment.

Founded in 2000 as a Leeds University spinout, Science Warehouse offers a cloud-based e-procurement solution for large decentralised organisations. The intuitive user interface allows buyers to compare products from approved suppliers while providing procurement departments with full control of their spending. This approach ensures intelligent and compliant purchasing decisions are made that adhere to the organisation's procurement and financial objectives.

E-procurement remains an attractive sector for growth, with the global procurement technology and B2B e-commerce market predicted to grow from $4.9billion in 2015 to be worth $6.7billion by 2018, according to research by procurement market analysts Spend Matters. One of the drivers in the market is that more companies are turning to procurement as a key source of competitive advantage, an area for most businesses which has historically been underinvested. Automation and analytics, such as the ones provided by Science Warehouse, are key tools for realising procurement value in an increasingly dynamic and globalised economy.

Science Warehouse has built close working relationships with 350 contracted suppliers and has developed a network of a further 25,000 suppliers. It has an online catalogue of over 17.0million products and services spanning sectors including: higher education, defence, public sector research, construction, local government and healthcare.

In 2015, Philip Padfield joined as CEO to shape the future strategy and drive revenue growth. Philip is a successful CEO with a track record of delivering increased market share and shareholder value in enterprise software and other technology areas. Philip has made a successful transition into the business in the last 12 months and has started to build out the executive team which includes Jonathan Russell, former senior director of software engineering at FICO, as chief technology officer and Amanda Grant, former business development director at m-Hance, as sales & marketing director.

In the year, the business has recorded double-digit revenue growth and won a number of new buyer accounts in the NHS, Central Government (Defence) and UK Local Government, as well as two major contracts with Australian universities. Given the investment in new technology and the new team, the profitability of the business has, as we anticipated at the time of Mercia's IPO, fallen in the last 12 months. However, we see the changes and improvements that are being made as a platform for significant future growth and we are therefore pleased with the progress made at Science Warehouse.

For more information visit www.sciencewarehouse.net

CROWDREACTIVE

Crowd Reactive

As at 31 March 2016, the Group held a 28.3% interest in Crowd Reactive, at a fair value of £1.5million, the investment being held at cost. The Group invested £1.0million during the year to help fund the company's growth.

Since its formation the Crowd Reactive platform has been used at 110,000 events and has displayed over 4.0million photos in 121 different countries. It has also built an impressive customer base, including notable brands such as O2, Coca Cola, San Francisco 49ers, Nike, MasterCard, Rolls-Royce, Adidas, England Rugby and Starbucks.

Its products have global potential as brands and agencies seek to harness and engage with social conversations around the world. Crowd Reactive is scalable and capable of working with almost any social media platform, at any kind of event, with the company estimating its total addressable market to be $4.0billion.

Crowd Reactive's core product is EventsTag which covers a wide range of events and client needs, from an intimate party to a multi-million dollar concert. EventsTag creates live social media feeds for brands and agencies, alongside a moderation capability and detailed analytics post event. According to founder and CEO Dan Strang, the scale and potential of their products is 'enormous' and 'absolutely anywhere where there is a crowd of people, and they have access to a smartphone, the product becomes useful'.

It has expanded its operations across the Atlantic, with 65% of its sales currently coming from the United States.

Mercia first invested in the business at a pre-revenue stage through its third party funds under management in 2014 and since then the company has grown from 2 founders to 16 employees in London and 6 in the United States. The Board has also expanded, with Linda Grant (previously managing director of Metro UK) joining as non-executive director in 2016.

The investment made by Mercia Technologies in the last 12 months will help the company to scale its operations across Europe, Asia and Latin America and develop new products.

For more information visit www.crowdreactive.com

Allinea Software

As at 31 March 2016, the Group held a 16.6% interest in Allinea Software at a fair value of £1.9million, the investment being held at a fully diluted enterprise value as the business is profitable and cash generative. During the year Mercia invested £17,000, exercising its pre-emption rights on small share parcel purchases.

Incorporated in 2009, Allinea Software ('Allinea') is a spinout from one of Mercia's university partners, the University of Warwick. It is a leading provider of software tools for developing and optimising high performance computing applications.

According to research by IDC[1], the high performance computing market is forecast to experience 8.2% annual growth until 2019, with the market expected to reach $15.2billion by this point. Due to the growth of supercomputing over the past 2 decades, Allinea's potential and existing customers now span across multiple high growth sectors, including automotive, oil and gas, aerospace, life sciences and research at both government and university level, with their products used in applications that include climate modelling, astrophysics, financial modelling and engine design.

Headquartered in the Midlands, one of Mercia's core investment regions, Allinea has since grown to incorporate teams in the United States, Europe and Japan. Allinea's platform is able to address HPC software development, debugging and performance optimisation through the use of its core products: Forge, DDT and MAP and Performance Reports.

Allinea's founder and CEO, David Lecomber, has over 2 decades of experience in parallel and high performance computing and leads a high quality executive team which is supported by a strong board.

In the last 12 months the business has continued to develop notable partnerships including relationships with many blue chip organisations, including Intel, Cray, IBM, Fujitsu, Atos and HP, and also has an impressive customer base, with its software used on 65% of the world's 100 largest supercomputers.

1 http://www.hpcwire.com/2015/07/16/idc-the-changing-face-of-hpc/

For more information visit www. allinea.com

Digital & Digital Entertainment

Mike Hayes
Investment Director, Digital & Digital Entertainment

The UK's creative and digital sector is recognised as a world leader. Headed by Investment Director Mike Hayes, we see this sector having an ever increasing volume of investment opportunities through Mercia's proprietary networks. Gaming in particular has seen a dynamic shift from a niche sector to a worldwide, social experience, with the global games market estimated to be worth close to $81.3billion in 2014 (Newzoo/UKie)[1], making it the largest market in the entertainment sector. This number will only increase, with the games market expected to grow to $113.0billion in 2018 (Newzoo/UKie)[2], in part driven by new innovations such as virtual reality ("VR"). The innovation and change within this market is considerable, with console, PC and smartphone products all continuing to grow.

Indeed, 2016 has been heralded as 'The Year of VR' by the media, with exciting new products within the virtual and augmented reality ("AR") fields entering the market. The UK in many respects is leading the field in both the traditional games market and the impressive new developments with VR and AR and this is showcased by 3 businesses within the Mercia Technologies portfolio: nDreams, Edge Case Games and VirtTrade. Mercia has a strong portfolio of exciting new entrants in these markets and is well placed to fulfil its medium to long term goal as being one of the leading investors in interactive entertainment in the UK.

For the year to 31 March 2016, Mercia made £4.9million of direct investment into this sector, taking the total holding value to £10.7million, including: £2.0million into nDreams, £0.8million into VirtTrade, £1.5million into Edge Case Games and £0.6million into Soccer Manager.

1 http://ukie.org.uk/sites/default/files/UK%20G%20April%202016_0.pdf ames%20Industry%20Fact%20Sheet%2029
2 http://ukie.org.uk/research

nDreams

nDreams

As at 31 March 2016, the Group held a 40.0% interest in nDreams at a fair value of £4.7million. The company received £2.0million of investment during the year and the investment is held at the price of the last investment round.

nDreams was founded in 2006 and quickly became the leading publisher in PlayStation Home and a developer of several major alternate reality games ("ARGs"). In 2013, however, their focus shifted to virtual reality and they are now the largest UK software developer to be solely focused on creating virtual reality entertainment creating content for the major VR headset manufacturers, including Samsung Gear VR, HTC Vive, Oculus Rift and Sony PlayStation VR. On 20 November 2015, two of nDreams' mobile VR titles – Gunner and Perfect Beach – were released and are both now available to download for Google Cardboard and Gear VR.

In the last 12 months nDreams has significantly increased its marketing and development activity and moved into publishing of third party VR titles. Post year end nDreams has announced a major partnership with Google to develop 2 games for the launch of Google's new VR platform, Daydream. The company's flagship game The Assembly, which has already received very positive reviews from industry commentators, will launch in summer 2016 alongside the major high end hardware releases from Oculus, HTC Vive and Sony PlayStation VR.

nDreams was founded by the former creative director of Eidos, Patrick O'Luanaigh, who has over 20 years' experience in the gaming industry, having previously worked at Codemasters Group plc ('Codemasters'). He was responsible for the design and gameplay of popular titles including Tomb Raider: Legend and Hitman: Blood Money while at Eidos, and has worked on titles such as Colin McRae Rally, Micro Machines V4 and Operation Flashpoint while at Codemasters.

Patrick is supported by nDreams' VP of development, Tomas Gillo, previously of Sony and Codemasters, and David Corless, VP of publishing, who has over 20 years' experience, having previously worked as head of marketing for SEGA and subsequently as global brand director for Sonic the Hedgehog at SEGA.

With its increasingly broad catalogue of games and experiences, relationships with all of the major hardware platforms and deep technical capability, we believe that nDreams is well placed for significant growth in the years ahead.

For more information visit www.ndreams.com

edgecase

Edge Case Games

Edge Case Games is a new direct investment and as at 31 March 2016, the Group held a 21.2% interest in the business at a fair value of £1.8million. The company received £1.5million of investment during the year and the investment is valued at the price of the last syndicated investment round.

Established as a new business under Mercia's guidance, with seed and early stage finance through its third party funds, Edge Case Games is a free to play, games-as-a-service business. Founded by 2 industry veterans, James Brooksby and Chris Mehers, Edge Case Games is in the process of developing its first major title, Fractured Space, a strategic tactical space combat game using large, intricately detailed space battleships. In the last 12 months it has secured an investment with a leading Chinese developer, Kingsoft Corporation, and built a loyal user base of PC gamers through its open development model.

Mercia invested £1.5million into the company during the year, with its second investment being alongside Seasun Games Corporation Limited (Kingsoft), which committed £1.0million to the round.

Edge Case Games is now preparing for the full launch of Fractured Space, following a soft launch via Steam's digital distribution platform in the Early Access program. The company has already attracted over 500,000 users, with many contributing to the continued improvement of the gameplay experience, thanks to feedback from users in the forums and blogs set up by the company in conjunction with its open development policy.

With the increasing number of users and the expansion into Asia, Edge Case Games is stepping up its operations here in the UK, having recently made several key hires, including Martin Frain, formerly of EA and Atari, who has joined as marketing director, and Jorge Ezquerra, formerly of Gameloft, who now leads the monetisation strategy. The company has also employed a network of high profile PR agencies around the world and is implementing an impressive digital strategy, which includes live streams of gameplay by staff to the gaming community.

With Mercia's continued support and the continued growth of the global video games market, Edge Case Games is well placed to build a potentially highly valuable business, both in Western markets and in China.

1 https://newzoo.com/insights/articles/global-games-market-reaches-99-6-billion-2016-mobile-generating-37

For more information visit www.edgecasegames.net

VirtTrade

As at 31 March 2016, the Group held a 28.4% interest in VirtTrade at a fair value of £2.6million. The company received £825,000 of investment during the year and the investment is valued at the price of the last investment round.

VirtTrade, founded in 2012, provides an advanced digital solution to the trading and collectibles market. The traditional physical market is estimated to be worth in excess of $2.5billion per annum and VirtTrade anticipates that it will fully digitise in the same way that books, music, TV and film have during the past decade.

Mercia identified VirtTrade several years ago as a potential game changer that will alter the way both children and adults collect and trade cards. Its highly customisable platform allows users around the world to trade cards on smartphones and tablets, with collections having the potential to exhibit real-time data, video, audio and social media feeds to create dynamic and constantly relevant collectibles.

In 2015, following an investment from Mercia Technologies to further support product development, VirtTrade announced a partnership with Panini, the world leader in sports and entertainment collectibles. Panini owns the digital rights to a significant portfolio of prestigious sports and entertainment franchises and together they subsequently published 2 titles in partnership for the NFL and NBA franchises; Gridiron and Dunk. During the same year VirtTrade also directly partnered with Premiership Rugby Ltd for the 2015-16 season and post year end launched the first ever Video Cards featuring tries from every game of the campaign and Social Access Cards offering live scrolling Twitter feeds for leading players - industry pioneering in both instances.

The company is now in discussions to independently support and launch digital collectibles for a number of other high profile rights holders from sport, TV and franchise entertainment. These discussions anticipate new product launches in 2017.

Since its formation VirtTrade has built a team with expertise across technology, gaming, sports and entertainment. In April 2016, Nick Wheelwright was appointed Chairman. Nick has over 20 years' experience in gaming and entertainment, having previously been CEO of Codemasters Group plc, where he grew the company from a small UK games company into a 400 strong global games developer and publisher.

The year ahead looks positive. VirtTrade has now entered into a new development cycle for version 2 of Gridiron and Dunk and negotiated an enhanced commercial agreement with Panini. The emphasis is now on creating features and technology that greatly enhance an immersive collector experience, promising to deliver more revenue and consumer data for its partners.

For more information visit www.virttrade.com

Electronics, Materials & Manufacturing/Engineering

Dr Mark Volanthen
Investment Director, Electronics, Materials & Manufacturing/Engineering

Headed by new Investment Director Dr Mark Volanthen, in this sector Mercia is focused on identifying and supporting the next generation of disruptive proprietary technology. It has a particular interest in enabling technologies in the sub-sectors of energy and storage, displays and high value electronics and telecommunication applications. These market segments are undergoing rapid change in response to fundamental technology and economic drivers, which provide an ideal backdrop for differentiated innovative solutions to build value. Although this sector is dominated by a limited number of large global corporations, we see considerable opportunity for innovative young companies. Enterprise Ventures also has a strong track record in this sector, including the AIM listing of Xeros and positions in several interesting businesses in their managed funds. The acquisition of Enterprise Ventures also strengthens the investment team in this area with the addition of Ashwin Kumaraswarmy (Investment Director).

Recognising that these technologies can take some time to achieve real commercial validation as they come to market, we will continue to build a balanced portfolio in this sector, with a blend of investments with different risk/return profiles.

For the year to 31 March 2016, Mercia invested £4.5million in this sector, with 2 new Emerging Stars from its managed funds, Impression Technologies and LM Technologies, receiving direct investment. We have a total of £6.7million of asset value in this sector and 3 of the the key assets are as follows:

Smart Antenna Technologies

As at 31 March 2016, the Group held a 29.5% interest in Smart Antenna Technologies at a fair value of £1.8million, based on the price of the last round of investment. During the year it received £1.3million of investment.

Smart Antenna Technologies is a spinout from partner university, the University of Birmingham, and is developing multi-function antenna solutions for mobile phones, tablets, laptops and Smart TVs.

With 1.0billion mobile handset devices alone produced annually, the global antenna market is predicted to grow to $19.9billion by 2019, according to a report published in December 2014 by BCC Research[1].

The market has, until now, been restricted by the limitation of certain electronic devices which can have up to 7 antennae to enable communication across different radio standards , including Bluetooth, MIMO Dual-Band Wi-Fi, GPS, 3G multi-bands and MIMO 4G LTE. Currently, in order to maximise the full functionality of each antenna, it has not been possible to amalgamate all of the antennae into one solution that fits the available space at an acceptable volume and production cost. As more functionality is incorporated into devices, more antennae are required, thus increasing the material costs to both the manufacturer and, ultimately, the consumer.

Based on patented technology developed by founder and CTO Sampson Hu, Smart Antenna Technologies is tackling these problems while meeting the requirements of the next generation of consumer electronics and mobile platforms. Its technology has the potential to reduce the cost of antennae in a typical smartphone by up to 50%, and could also improve battery life significantly.

Since its formation in 2013, Smart Antenna Technologies has filed more than 50 patent applications covering the USA, Europe, South Korea, China, Taiwan and Japan.

Under the guidance of executive chairman Colin Tucker, the former CTO and COO for European business at Orange, and founding CEO of 3, the first 3G operator in the UK, Smart Antenna Technologies continues to build its product range.

Smart Antenna Technologies is now looking to branch out into other applications such as the next generation of Smart TVs. In October 2015, Mercia committed a further £1.2million, which has helped Smart Antenna Technologies to continue development of its technology alongside ongoing discussions with several major commercial partners, including tier 1 laptop/tablet customers.

1 http://www.bccresearch.com/market-research/information-technology/antennas-systems-devices-report-ift073c.html

For more information visit www.smartantennatech.com

Impression TECHNOLOGIES

Impression Technologies

As at 31 March 2016, the Group held an 18.6% interest in Impression Technologies at a fair value of £1.5million. This is a new direct investment. Mercia made its first investment in July 2015, following initial funding from Mercia Fund Management in 2014, and made a further investment during the year. The investment is held at cost and total investments made during the reporting year were £1.5million.

Impression Technologies specialises in forming complex, high strength, lightweight, ductile components which can be used in the manufacture of cars, trains and aeroplanes using its proprietary Hot Form Quenching ("HFQ®") process.

HFQ® is capable of forming complex aluminium parts that are lightweight but retain their strength, helping manufacturers to save on the cost of parts, reduce weight, improve the performance of the vehicle and help them meet strict emissions targets that are increasingly being mandated by governments across the world. Major vehicle platforms are constantly looking at using alternative materials such as aluminium to build lighter, cheaper vehicles and HFQ® has distinct advantages over other methods of manufacture.

The technology was originally developed by Impression Technologies and Imperial College, building on founding research from the University of Birmingham. Impression Technologies' business model is to license their technology to major vehicle OEMs and their tier 1 supplier, but they also offer services such as licensing, training and support, forming simulation and material test methods to manufacturers.

Although design cycles in the automotive industry can be long, Impression Technologies has already established a long list of potential collaborations with vehicle brands, tier 1 contractors, aluminium suppliers and designers. They have secured prestigious customers from within the automotive industry, including Aston Martin, which has included parts made using the HFQ® method in its recently launched DB11 model.

Since receiving a total of £5.0million in investment from Mercia Technologies and syndicate partner Imperial Innovations, Impression Technologies has now moved into a pioneering new press facility, which houses the world's first dedicated HFQ® hot forming press. This capacity will be formally launched later this year and should lead to further growth opportunities in the year ahead.

For more information visit www.impression-technologies.com

Warwick Audio Technologies

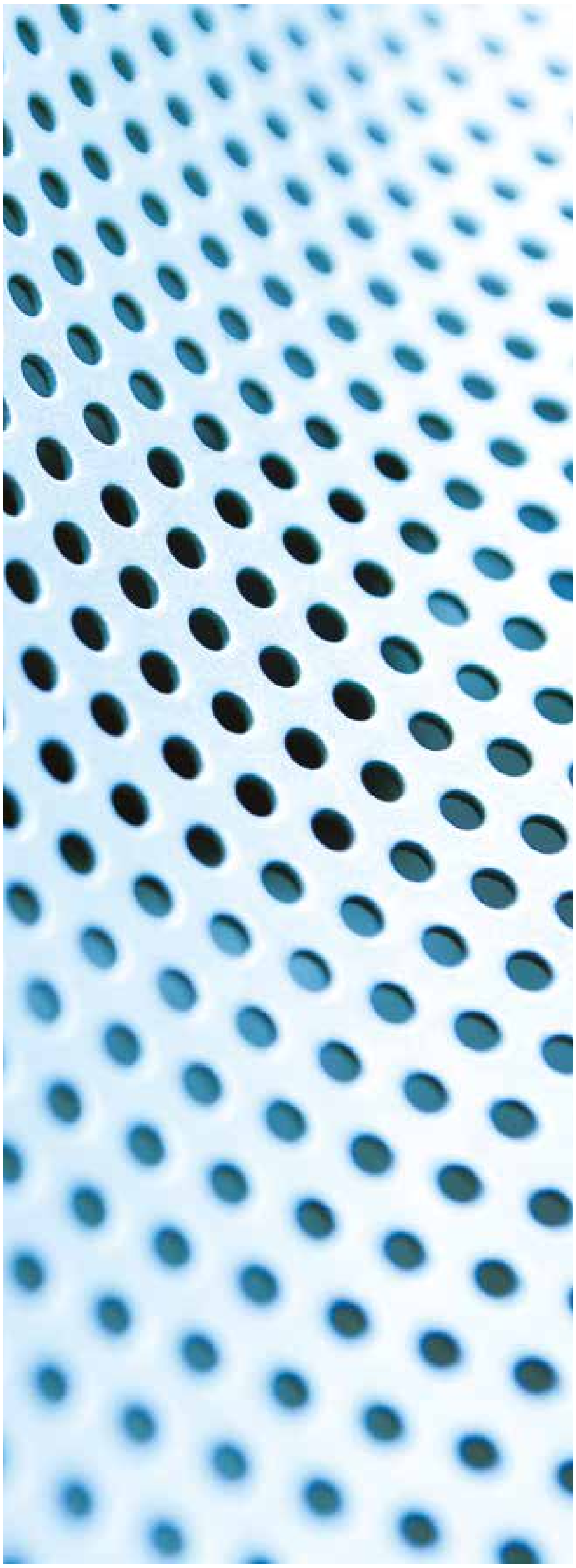
As at 31 March 2016, the Group held a 65.2% interest in Warwick Audio Technologies at a fair value of £1.3million, based on the price of the last round of investment. The company received £885,000 of investment during the reporting year.

Warwick Audio Technologies is a University of Warwick spinout company founded in 2007. It has developed a patented electrostatic speaker with hi-fi quality sound that is extremely light, thin, flexible, cheap to manufacture and uses significantly less power than current speaker technology. The company is focused on 3 core markets – headphones, other consumer goods applications such as sound bars and in the longer term, in-car directional speakers.

The headphone opportunity has accelerated significantly. Over the last 12 months the company has been developing a premium wired headphones product which was demonstrated at the Consumer Electronics Show ("CES") in Las Vegas in January 2016. The product was well received and partnerships for production runs within the next 12 to 18 months have been entered into. The wired product is a high-fidelity, high-end, enthusiast's offering and sits in a worldwide addressable market of circa $300.0million. The prototype has outperformed many of its comparators and received very favourable trade press reviews. It also benefits from significantly reduced manufacturing costs and so an attractive retail price point. The wireless/portable product requires additional development largely to ensure that the technology can meet the appropriate form factor and power/battery life market requirements. The intention is to bring this product to market in the next 18 months, launching into a much larger global market opportunity estimated at circa $3.0billion, with an initial showing of the prototype targeted for CES 2017.

The company benefits from a strong management team led by Mike Grant as chairman. Mike has over 20 years' commercial and marketing experience, 10 of which were at board level. Martin Roberts is CEO with 20 years' experience in the commercialisation of audio technology from NXT, HiWave and Soundtech, and Dan Anagnos is CTO with 30 years' experience in acoustic, audio and headphone design at Sony, Boston Acoustics, Polk Audio, NEOS Music and D&M Holdings.

For more information visit www.warwickaudiotech.com



Life Sciences & Biosciences

Peter Dines
Investment Director, Life Sciences & Biosciences

Headed by Investment Director Peter Dines, the key areas of focus in this sector are digital health, diagnostics and medical devices. These sub-sectors have clear regulatory paths to market, are not typically capital intensive and are areas in which investee companies can quickly become revenue generating. The strategy rules out the capital intensive plays of drug discovery and novel drug development. We have increased fund investment activity in these sub-sectors in the last 12 months making 5 new investments, largely through university partnerships.

The Life Sciences & Biosciences sector is of particular interest to Mercia as it resides largely within its core regions of focus as almost two-thirds of employment within this sector is outside of London, according to a report by the Office for Life Science. Also, while the biopharmaceutical industry is dominated by corporate giants, 98% of the medtechnology sector in the UK is driven by SMEs[1]. This provides a wealth of investment opportunities, which we can source both directly through the Investment Directors' extensive personal networks, as well as via university partnerships.

We have steadily grown the expertise within this sector, appointing Dr Ashish Patel, a qualified doctor who joined in early 2016 and with the recent acquisition of Enterprise Ventures, the team has also been further strengthened with the addition of Lisa Ward, Dr Mark Wyatt and Dr Graham Davies, seasoned life science sector investors.

For the year to 31 March 2016, Mercia invested £1.1million in this sector, which saw Oxford Genetics from the managed funds and PsiOxus Therapeutics from the dissolution of Mercia Fund 2 added to the portfolio of direct investments. We have a total of £3.3million of value in this sector and 2 of the key assets are described on pages 40 and 41.

Post year end Mercia launched a third party fund, SME Innovation Fund, in partnership with the West Midlands Academic Health Science Network which is linked to, and funded by, the NHS. Post year end Mercia also made an investment into Concepta Diagnostics, a life sciences business sourced from the portfolio of investments managed by Enterprise Ventures.

1 Strength and Opportunity 2015, Office for Life Sciences, p.3.

The Native Antigen Company

The Native Antigen Company

As at 31 March 2016, the Group held a 35.6% interest in The Native Antigen Company at a fair value of £0.6million based on the price of the last round of syndicated investment. The company received £118,000 of investment during the reporting year.

The Native Antigen Company is a spinout from partner university, the University of Birmingham. The company specialises in the research, development and manufacture of high purity antigens, which are proteins that are located on the surface of cells such as bacteria and viruses.

The Native Antigen Company has developed a proprietary, high yielding mammalian cell system which, unlike other manufacturing systems, produces pure antigens which conform very closely to their natural form. The company has employed this platform to produce a catalogue of (often unique) high quality, pure antigens for a number of life-threatening diseases, including dengue, West Nile and yellow fever and it also offers custom manufacturing services for bulk quantities of antigens and other biological materials.

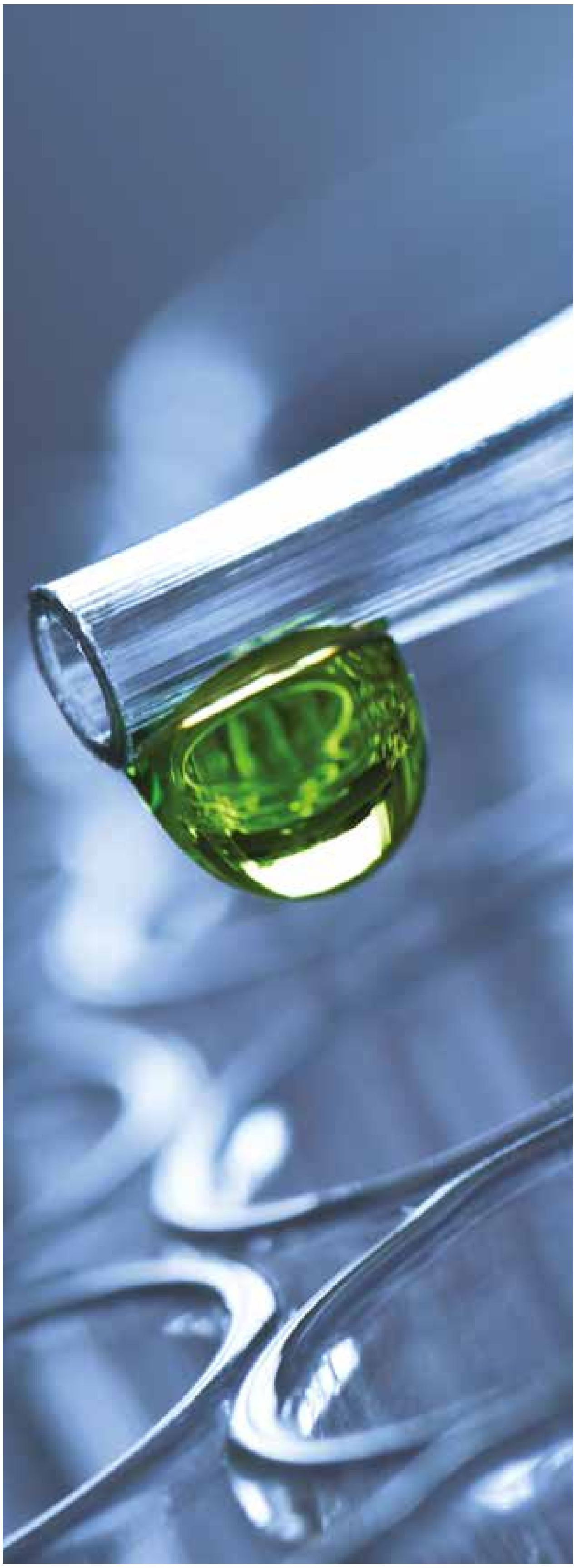
In 2015 The Native Antigen Company received worldwide industry attention by developing the world's only commercially available native antigen from the Zika virus. Known as the Zika NS1 protein, the product provides a natural match for key parts (or antigens) of the Zika virus, allowing research facilities to safely test biological reactions for a wide variety of circumstances, such as disease diagnosis and vaccine development.

In addition to antigens and custom services, it has a development pipeline of point-of-care diagnostics for the detection of microbes which represent an increasing threat to public health, including dengue and Chikungunya viruses. The increasing threat and prevalence of these pathogens is contributing to the significant growth in the point-of-care diagnostics market, which is forecast to be worth in excess of $20.0billion worldwide by 2019.

The company was co-founded by Dr Nick Roesen who leads the scientific operation as chief scientific officer. Nick has over a decade of experience in molecular virology and antigen production, having previously worked as a senior scientist at Hybrid BioSystems (now PsiOxus Therapeutics). Nick is joined in the management team by CEO Dr Steven Powell, who has over 25 years' operational and investment experience within the pharmaceutical and healthcare R&D sectors including Beecham Pharmaceuticals (GSK), Whatman, Chiroscience and Plethora Solutions, and has co-founded 4 companies within the sector, 2 of which have been sold. The executive team is completed by the addition in 2016 of Dr Andy Lane who brings extensive experience of building companies in the life science research and diagnostics sectors.

There are significant opportunities within this market and The Native Antigen Company is well placed to capitalise upon them during the coming year.

For more information visit www.thenativeantigencompany.com



Oxford Genetics

As at 31 March 2016, the Group held a 34.7% interest in Oxford Genetics, at a fair value of £1.2million. The investment is held at cost and the company received £1.2million of investment during the reporting year.

Founded in 2011, Oxford Genetics became a direct investment for Mercia in December 2015, following revenue growth arising from key partnerships with organisations such as Sigma-Aldrich (now part of the Merck Group).

Oxford Genetics is a synthetic biology company focused on providing product solutions to maximise protein production. The company's central focus is to use its DNA design and algorithm technologies to enable customers to create products to overcome the key issue of poor protein yield with certain recombinant technologies and constructs.

Its addressable markets, where Oxford Genetics offers significant advantages, include:

1. DNA design (a $600.0million market with a CAGR in excess of 15%).
2. Creation and sale of mammalian expression vectors (an $88.0million market with a CAGR in excess of 6%).
3. Recombinant mammalian cell line development (a $900.0million market with a CAGR in excess of 12%).

The company has a hybrid model of providing an e-commerce DNA catalogue which has already developed the world's largest library of plasmid DNA 'building blocks' for simplified genetic engineering, combined with the creation of bespoke mammalian cell lines capable of achieving the optimised production of proteins, antibodies and viruses. Its customers comprise academia, pharma and biotech companies.

The company is headed by Dr Ryan Cawood, an experienced genetic engineer with extensive knowledge and practical insight working with bacterial, botanical and mammalian recombinant expression systems, and his co-founder Len Symour, a professor of gene therapies at the University of Oxford who has over 25 years' experience at the interface of genetic engineering and medicine.

The forthcoming year holds great potential as the business is benefiting from state of the art facilities and accelerated expansion of its board and management to meet the marked increase in demand for its services.

For more information visit www.oxfordgenetics.com

A year of significant progress

Mercia's objectives are centred on investing its £66.0million net placing proceeds into new and existing direct investments, the recruitment of experienced investment and commercialisation professionals, regional organic expansion and the acquisition of complementary investment businesses, while at all times maintaining liquidity and operational flexibility.

Mercia's results for the year to 31 March 2016 reflect significant progress in all of these key business objectives.

"In its first full financial year as an AIM listed company Mercia Technologies PLC has made significant progress in fulfilling each of the strategic objectives set out in its Admission Document"

Martin Glanfield
Chief Financial Officer

As Mercia Technologies was formed just prior to its Initial Public Offering ("IPO") on 18 December 2014, the prior period consolidated results represent approximately 3½ months' trading activity to 31 March 2015.

During the year ended 31 March 2016 the Group invested £12.6million net (2015: £11.7million) into 10 existing (2015: 3) and 6 new (2015: 3) direct investments. As at 31 March 2016 the fair value of the Group's direct investment portfolio (including investments transferred from Mercia Fund 2) was £38.1million (2015: £24.6million). Net fair value gains during the year totalled £0.9million (2015: £3.9million). Total net assets at the year end were £80.0million (2015: £80.8million), including cash and short-term liquidity investments totalling £30.9million (2015: £53.6million). The net fair value gains referred to above contributed positively to a consolidated loss and total comprehensive loss for the year of £1.7million (2015: £2.0million profit). Given the early stage nature of the vast majority of the Group's direct investment portfolio, these results are reflective of the relatively short time in which the Group's cash has been invested.

Acquisition of Enterprise Ventures Group Limited ('Enterprise Ventures')

On 9 March 2016 Mercia Technologies acquired Enterprise Ventures' entire issued share capital for up to £11.0million and an amount equal to Enterprise Ventures' net cash at completion which was £2.0million. The initial consideration was £9.0million, comprising £8.3million satisfied in cash on completion (which was funded from the Group's existing cash resources) and £0.7million satisfied by the issue of 1,645,711 initial consideration shares at a price of 42.0 pence (being the average of the daily closing mid-market price for an Ordinary share of Mercia Technologies for the 5 trading days immediately preceding completion).

Deferred consideration of up to £2.0million will also be payable, contingent upon Enterprise Ventures raising at least £80.0million of net new third party funds during the 2 year period post completion. To the extent payable, the deferred consideration will be satisfied by the issue of additional Mercia Technologies Ordinary shares, at a price which will be determined by the average of the daily closing mid-market price for an Ordinary share for the 5 trading days immediately following the end of the 2 year deferred consideration period.

The Enterprise Ventures vendors have all agreed not to dispose of any of their initial consideration shares for at least 18 months following issue, nor any of their deferred consideration shares for a minimum period of 12 months following issue.

The consolidated results for the enlarged Group therefore include Enterprise Ventures' post acquisition trading from its date of acquisition to 31 March 2016.

Dissolution of The Mercia Fund 2 Limited Partnership ('Mercia Fund 2')

During the immediate post IPO period to 31 March 2015 the Group became the sole limited partner in Mercia Fund 2, a fund owning investments in 9 trading technology companies, 6 of which are companies in which Mercia Technologies also has a direct stake. The intention of becoming the sole limited partner was to enable the fund to be dissolved and the investment stakes held by Mercia Fund 2 to become directly owned by Mercia Technologies. Just prior to 31 March 2016 the shares held by Mercia Fund 2 in those 9 companies were successfully transferred to Mercia Technologies along with residual cash of £384,000. Mercia Fund 2 is now being dissolved. The cash and share transfers are shown in the direct investment table on page 45.

Goodwill and acquired intangible assets

The year end consolidated balance sheet includes goodwill of £10.3million (2015: £2.5million) and acquired intangible assets of £1.5million (2015: £nil). As more fully disclosed in note 13 to the consolidated financial statements, £7.9million (2015: £nil) of the goodwill and all of the intangible assets' value arose as a result of the Group's acquisition of Enterprise Ventures. The intangible assets are separately identifiable assets arising from Enterprise Ventures' fund management contracts with third party limited partners and other similar investors. The fair value of the intangible assets is being amortised on a straight-line basis over the average duration of the remaining fund management contracts. The amortisation charge of £17,000 (2015: £nil) in the consolidated statement of comprehensive income represents the amortisation of the intangible assets from their date of acquisition to 31 March 2016.

Summarised consolidated statement of comprehensive income

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Revenue	**1,755**	508
Cost of sales	**(79)**	(10)
Fair value movements in investments	**896**	3,934
Administrative expenses	**(4,011)**	(1,495)
Share-based payments charge	**(230)**	(44)
Amortisation of intangible assets	**(17)**	–
Exceptional items – acquisition costs	**(372)**	(1,018)
Finance income	**361**	93
(Loss)/profit and total comprehensive (loss)/income for the financial year/period	**(1,697)**	1,968
Basic and diluted (loss)/earnings per Ordinary share (pence)	**(0.80)**	0.93

Revenue and cost of sales

Total revenues of £1,755,000 (2015: £508,000) comprise fund management fees, initial management fees from new investments, investment director monitoring fees and sundry business services income. Cost of sales represents third party fees incurred for administering the funds under management by Mercia Fund Management ("MFM").

Fair value movements in investments

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Investment movements excluding cash invested:		
Unrealised gains on the revaluation of investments	**1,582**	4,225
Unrealised losses on the revaluation of investments	**(686)**	(291)
Net fair value gain	**896**	3,934

For the year as a whole, unrealised fair value gains arose in 5 (2015: 5) of the Group's 22 (2015: 14) direct investments. The largest fair value gain was nDreams Limited, which accounted for £812,000 of the total. There were 4 (2015: 3) fair value impairments, the largest being £150,000 for Nightingale-EOS Limited.

Administrative expenses

Total administrative expenses of £4,011,000 (2015: £1,495,000) consisted predominantly of staff related costs. Total headcount has grown in line with the Group's stated objectives at the time of the IPO.

Share-based payments charge

The £230,000 (2015: £44,000) non-cash charge arises from the issue of share options to 10 members of staff at the date of the IPO and 5 more during the year.

Amortisation of intangible assets

The amortisation charge of £17,000 (2015: £nil) represents the amortisation of the acquired intangible assets of Enterprise Ventures from their date of acquisition to 31 March 2016.

Exceptional items – acquisition costs

Total acquisition costs in relation to the acquisition of Enterprise Ventures amounted to £394,000. Of this total £22,000 were share issue related costs and have been charged to the share premium account. The balance of £372,000 has been charged to the consolidated statement of comprehensive income, as an exceptional non-trading and non-recurring cost. The prior period exceptional item represents costs incurred in relation to the Group's IPO.

Finance income

Finance income of £361,000 (2015: £93,000) was predominantly interest receivable earned on the Group's cash and short-term liquidity investments.

Balance sheet and cash flows

Net assets at the period end of £80,041,000 (2015: £80,839,000) were predominantly made up of the Group's direct investment portfolio, together with cash and short-term liquidity investments. The Group has limited working capital needs due to the nature of its business.

	Net investment value As at 1 April 2015 £'000	Cash invested/ (received) Year to 31 March 2016 £'000	Mercia Fund 2 transfer Year to 31 March 2016 £'000	Fair value movement Year to 31 March 2016 £'000	Net investment value As at 31 March 2016 £'000	Percentage held As at 31 March 2016 %
Science Warehouse Ltd	12,650	–	–	–	12,650	62.6
nDreams Ltd	1,909	2,000	–	812	4,721	40.0
VirtTrade Ltd	1,750	825	–	–	2,575	28.4
Allinea Software Ltd	823	17	1,120	(44)	1,916	16.6
Smart Antenna Technologies Ltd	149	1,300	–	378	1,827	29.5
Edge Case Games Ltd	–	1,500	–	310	1,810	21.2
Soccer Manager Ltd	999	600	–	–	1,599	29.9
Impression Technologies Ltd	–	1,500	–	–	1,500	18.6
Crowd Reactive Ltd	500	1,000	–	–	1,500	28.3
LM Technologies Ltd	–	750	642	–	1,392	37.1
Warwick Audio Technologies Ltd	318	885	78	67	1,348	65.2
Oxford Genetics Ltd	–	1,150	–	–	1,150	34.7
PsiOxus Therapeutics Ltd	–	240	897	–	1,137	1.6
Ton UK Ltd t/a Intelligent Positioning	–	1,000	–	–	1,000	14.3
The Native Antigen Company Ltd	164	118	364	–	646	35.6
Other direct investments	963	129	638	(358)	1,372	n/a
Mercia Fund 2	4,392	(384)	(3,739)	(269)	–	n/a
Totals	**24,617**	**12,630**	**–**	**896**	**38,143**	**n/a**

Cash and short-term liquidity investments

At the year end, Mercia had total cash and short-term liquidity investments of £30,932,000 (2015: £53,633,000) comprising cash of £20,932,000 (2015: £23,633,000) and short-term liquidity investments of £10,000,000 (2015: £30,000,000). The overriding emphasis of the Group's treasury policy remains the preservation of its shareholders' cash for investment and working capital purposes, not yield. At the year end the Group's cash and short-term liquidity investments (which is cash on deposit with maturities between 3 and 6 months) were spread across 5 leading United Kingdom banks.

The summarised movement in the Group's cash position during the year is shown below.

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Opening cash and short-term liquidity investments	**53,633**	–
Cash acquired with MFM on 17 December 2014	**–**	124
Net cash used in operating activities	**(2,024)**	(2,029)
Net cash used in investing activities (including capital expenditure and interest received)	**(12,346)**	(11,692)
Purchase of subsidiary undertaking net of cash acquired	**(8,309)**	–
Issued share capital	**–**	70,000
Share issue costs charged to share premium account	**(22)**	(2,770)
Year/period end cash and short-term liquidity investments	**30,932**	53,633

Martin Glanfield
Chief Financial Officer
29 June 2016

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Board of Directors

At the heart of all successful businesses are strong teams. At Mercia Technologies PLC, we have a Board including Non-executive Directors with exceptional listed company and corporate growth success, combining corporate governance with shareholder value creation at their core. Mercia's 4 Executive Directors have a highly complementary skill set, which is essential to realise the growth ambitions of the twin elements of the Mercia Model.

Mark Payton
(Chief Executive Officer)

Mark is the co-founder of Mercia Fund Management Limited ("MFM"). He has made in excess of 30 venture investments and led the sale of Hybrid Systems (to Myotec), Warwick Effect Polymers (to Polytherics) and was on the board of Abzena plc until its listing on AIM in July 2014. Prior to MFM, Mark was at the Department of Pharmacology, University of Oxford, and played leading roles within Isis Innovation (the technology transfer operation of the University of Oxford), spinning out BioAnalab, Oxford Immunotec, Oxitec and Natural Motion – 2 of which were latterly sold and 1 listed successfully on NASDAQ. Mark was vice president corporate development at Oxxon Therapeutics Inc, prior to its sale to Oxford BioMedica PLC. Mark benefits from over 15 years' experience in technology commercialisation and investment and led the management buyout which created MFM. Mark gained his PhD jointly between the University of Oxford (Worcester College) and the University of London (King's College). He also has an MBA from the University of Warwick, has IMC parts I and II, and is FCA accredited.

Martin Glanfield
(Chief Financial Officer)

Martin is a KPMG qualified chartered accountant with more than 20 years' experience as chief financial officer of listed, private equity backed and privately owned technology-led businesses. Martin joined Forward Group PLC in 1993 and was group financial director from 1995 until its sale for £129million in 1997. In 1999, as deputy chief executive of Symonds plc, Martin led the public to private of this listed technology group, backed by NatWest Equity Partners. The group was successfully restructured and sold within 12 months to a NASDAQ listed US electronics group, whereupon he became a vice president, working frequently in Silicon Valley. Martin was chief executive of Forward Group plc from 2003 to 2005 and since then has been group finance and IT director of the large international food processing group Boparan Holdings Ltd and a private equity backed building services business. He holds an honours degree in business from Aston University.

Matthew Mead
(Chief Investment Officer)

Matthew has over 20 years' experience in the investment industry and is a seasoned board executive, having been a non-executive director and non-executive chairman of over 15 early stage and growth businesses. He worked at 3i from 1995 to 2009 where he managed the disposal of 3i's venture portfolio, realising £200million of proceeds through sales, and its pan-European venture portfolio, returning over £180million of cash in 2 years. He subsequently joined NESTA as managing director investments to run its £30million venture capital fund and in 2010 was appointed CIO, managing all investment activity, including its £350million trust assets and its venture portfolio. Matthew qualified as a chartered accountant with Ernst & Young and holds a degree in economics and geography from Reading University.

Jonathan Diggines
(Executive Director, Funds)

Before joining the Board, Jonathan had been chief executive of Enterprise Ventures from 2005 to 2016, where he increased funds under management from c.£10million to more than £200million. Previously Jonathan spent 12 years in practice as a solicitor, then 11 years as a fund manager with Murray Johnstone, followed by 4 years with Aberdeen Asset Management. He has been responsible for raising and investing more than £800million of private equity and venture capital funds in the UK mid-market and has led and managed a substantial portfolio of successful private equity and venture capital investments. He has been a member of the Council of the British Venture Capital Association ("BVCA"), where he chaired the BVCA Legal & Technical Committee. He was chair of the Community Development Finance Association from 2011 to 2015 and is a now a member of the North West Regional Council for the Confederation of British Industry ("CBI"). He has an MA in jurisprident from Oxford University.

The Group has 4 Non-executive Directors, with the new Chair Susan Searle, whose track record in business building includes being the former CEO of Imperial Innovations Group plc; Ray Chamberlain, having founded the successful international technology business Forward Group PLC, via its own flotation and subsequent acquisition; with the guidance and corporate governance oversight from Ian Metcalfe, the former managing partner of international law firm Wragge & Co; and with the strategic direction and operational insight from Martin Lamb, the former chief executive of Midlands-based FTSE100 group, IMI plc.

Susan Searle
(Non-executive Chair)

Susan served as the chief executive officer of Imperial Innovations Group plc from January 2002 to July 2013. At Imperial Innovations, Susan led funding rounds totalling circa £250million and during her tenure, Imperial Innovations invested £121million in a portfolio of healthcare, engineering and software businesses. Previously, Susan worked at Montech in Australia (science commercialisation), Signet Group PLC, Bank of Nova Scotia and Shell Chemicals, in a variety of business development and commercial roles. She currently serves as a non-executive director of Benchmark Holdings plc, Horizon Discovery plc and QinetiQ Group plc, and is chair of Woodford Patient Capital Trust plc. Susan was previously the Non-executive Deputy Chair of Mercia Technologies and serves as a member of the international advisory board of PTT Global Chemicals. Susan has an MA in chemistry from Oxford University.

Ray Chamberlain
(Non-executive Director)

Ray is an entrepreneur with an established track record of shareholder value creation. Until 1997, Ray was executive chairman and the principal shareholder in Forward Group PLC, which he grew from a start-up company in 1978 to become one of Europe's leading high technology printed circuit board manufacturers, listed on the Main Market of the London Stock Exchange. In 1997 Forward Group accepted a £129million offer from PCB Investments plc, a company established by Hicks, Muse, Tate & Furst. Subsequently, Ray diversified his interests in a number of areas, which included setting up the Forward Innovation Fund, a trust focused on investing in university spinouts and other technology-led start-ups. Ray was appointed Non-executive Chair at the time of the Group's IPO and having steered Mercia Technologies through its first 18 months as a listed company, has recently moved to a non-executive position, having reached 70 years of age.

Ian Metcalfe
(Non-executive Director)

Ian is a qualified solicitor who retired as managing partner of international law firm Wragge & Co in 2014 after 8 years in post. Prior to managing the business, Ian was a corporate partner at the firm for 14 years, acting for a number of substantial public and private companies and private equity houses on a wide range of transactions. Ian is a director and chair of Commonwealth Games England and is chairman of the Professional Game Board of the Rugby Football Union ("RFU"). He is also a non-executive director of the RFU and a member of its Council. Recently, Ian has become a non-executive director of the global waste management group TRRG Holdings Ltd, a merger of Dutch based Terberg Environment and Spanish based Ros Roca Environment. A double rugby blue, Ian represents Cambridge University on the RFU Council. He is a governor of the Foundation of King Edward VI Schools in Birmingham, as well as a governor of King Edward VI School for Boys and King Edward VI High School for Girls. Ian has an MA in law from Cambridge University.

Martin Lamb
(Non-executive Director)

Martin retired from IMI plc ("IMI") at the end of 2013 after 33 years with the company, the last 13 as chief executive. He oversaw a fundamental reshaping of IMI, moving it from a largely European-based conglomerate with a heavy building materials content, to a highly differentiated and global engineering group, focused on the precise control of fluids and gases in critical applications. As a result, IMI sold and acquired over 30 companies and more than doubled its operating margins under his leadership. Martin is the senior independent director of Severn Trent plc and chairman of Rotork plc. In addition, he is chairman of privately owned Evoqua Water Technologies LLC and a member of the European Advisory Board of AEA Investors (UK) Limited. Martin holds a degree in mechanical engineering from Imperial College London and has an MBA from Cranfield Business School.

Senior management team

Operating across the Group, the senior management team benefits from many decades of business building and operational excellence, from fund raising and management through to running multi-billion dollar organisations.

Julian Viggars
(Head of Technology Investments, Third Party Funds)

Julian was head of technology investments at Enterprise Ventures prior to its acquisition by Mercia. He now works closely with Mercia's Chief Investment Officer Matthew Mead to support the investment team as they source and fund Mercia's growing portfolio of technology businesses via its third party funds under management.

Julian looks after Enterprise Ventures' 9 AIM listed investments and has been a non-executive director of Xeros plc since 2009.

Mike Hayes
(Investment Director, Digital & Digital Entertainment)

Mike brings over 23 years' experience in interactive businesses. At multinational games company SEGA, he was CEO for Europe and America presiding over a turnover in excess of £400million. He was responsible for the re-birth of SEGA as a multi-platform software company and managed the acquisition of several development studios including Sports Interactive (maker of the Football Manager series) and Creative Assembly (maker of the Total War series). Mike led the team that transferred Sonic successfully onto digital platforms and launched one of the first ever games for the iPhone – Super Monkey Ball.

Rob Johnson
(Investment Director, Software & the Internet)

Rob has had an extensive career in the digital and e-commerce sector, holding numerous high profile positions in leading organisations, most recently as joint managing director at Buyagift PLC which he helped grow from £3.0million turnover to over £20.0million prior to the sale of the company to Smart&Co. Previously, Rob was managing director and a main board member at Ilion plc and was responsible for the turnaround of the fortunes of the UK organisation. When Rob joined the company the share price was 52p. The entire share capital was later bought by Landis at 160p per share.

Peter Dines
(Investment Director, Life Sciences & Biosciences)

As a highly successful entrepreneur and investor, Peter brings 20 years' experience in the healthcare sector, holding numerous directorships across a wide range of life sciences businesses. Over this period, Peter has been involved with a number of high profile investments and exits within the sector, including the acquisition of Surgicraft's loss making business where, as managing director, sales quadrupled within 3 years and the business was subsequently sold to ISIS Equity Partners. Other key healthcare positions held, both previously and currently, include Bridges Ventures, Cisiv, Diagnostic World, Spring Active and Newtech Ortho.

Dr Mark Volanthen
(Investment Director, Electronics, Materials & Manufacturing/ Engineering)

Mark has extensive experience in growing and supporting businesses across a wide range of sectors, including: oil and gas, energy, defence, instrumentation and communications. Mark currently holds various positions on several boards, including chairman of Oxifree Global Ltd, non-executive director of Rawwater Engineering Company Ltd and non-executive director of Smart Reamer Drilling Systems Ltd. He is also on the advisory boards of Synaptec Ltd and Spectrum Corporate Finance LLP. Previously, Mark held the position of managing director oil & gas at Guralp Systems and has also been chief executive officer for WFS Technologies and Insensys Aerospace & Defence.

Dr Nicola Broughton
(Investment Director, University Technology Transfer)

Nicola specialises in identifying university spinout opportunities at Mercia, her background being in IP commercialisation, university spinouts and licensing, primarily within the university and small and medium sized enterprise ("SME") sectors. Since starting to work in technology transfer in 2000, Nicola has fulfilled a number of commercial roles. Her experience includes sourcing and identifying commercial opportunities, IP protection, strategy and management (managing a patent portfolio to global protection), 'freedom to operate', licensing, cross licensing, due diligence and raising finance in both the public and private sectors.

John Simpson
(Finance Director)

John was the finance director of Enterprise Ventures prior to its acquisition by Mercia. He is a chartered accountant and spent 11 years with Murray Johnstone Private Equity, followed by 4 years with Aberdeen Asset Management as portfolio director and a member of the executive management team. He has 30 years' experience in managing all aspects of private equity as an investor and portfolio director and in fundraising. John has held a number of non-executive director appointments on behalf of institutional investors and client funds and has advised private equity investors and fund investors on due diligence and investment management, in the private and public sectors both in the UK and overseas. He is a former member of the British Venture Capital Association Hi-tech Committee and the VCT Fund Managers' Forum.

Directors' report

The Directors present their Annual Report and the audited financial statements of Mercia Technologies PLC for the year ended 31 March 2016.

Results and dividends
The loss for the year was £1,697,000 (2015: £1,968,000 profit). The Directors do not recommend the payment of a dividend.

Future developments and events after the balance sheet date
Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 23 which forms part of this report by cross-reference.

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

Raymond Kenneth Chamberlain	
Dr Mark Andrew Payton	
Martin James Glanfield	
Matthew Sidney Mead	(appointed 22 June 2015)
Jonathan Brett Diggines	(appointed 9 March 2016)
Susan Jane Searle	
Ian Roland Metcalfe	
Martin James Lamb	

Directors' shareholdings and other interests
A table showing the interests of Directors in the share capital of Mercia Technologies PLC is shown in the Remuneration Report on page 56.

Directors' indemnities
Mercia Technologies PLC has made qualifying third party indemnity provisions for the benefit of all 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 Group'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 Group's operations as well as to efficiently manage working capital and liquidity.

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

The Group's use of financial instruments is discussed further in note 26 to the financial statements.

Substantial shareholdings
As at 31 March 2016, the Group had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights of shareholders of the Group:

	Number of Ordinary shares	Percentage %
Invesco Perpetual	62,540,000	29.3
Woodford Investment Management	43,155,042	20.2
Forward Innovation Fund	31,622,280	14.8
Forward Nominees Limited	16,481,456	7.7
Baillie Gifford & Co	15,769,712	7.4
NFU Mutual Insurance Society	10,600,000	5.0
Mark Payton	6,622,863	3.1

Political donations
During the year ended 31 March 2016 the Group made no political donations.

Employees
The Group employed an average of 24 (2015: 15) staff throughout the year and is therefore of a size where it is not necessary to have introduced a formal employee consultation process. However, employees are encouraged to be involved in decision-making processes and are provided with information on the financial and economic factors affecting the Group's performance, through regular team meetings, updates from the Chief Executive Officer and via an open and inclusive culture. Given the Group's expansion during the past year, a human resources manager has been recruited to support employee recruitment, retention, communication, training and performance management.

The Group operates a discretionary annual bonus scheme for its employees. All are eligible for an annual bonus based on their and the Group's overall performance.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment within the Group continues and that workspace and other modifications are made as appropriate. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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

Approved by the Board and signed on its behalf by:

Martin Glanfield
Company Secretary
29 June 2016

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

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also chosen to prepare the Parent Company 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 Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

In preparing the Company 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 Financial Reporting Standard 101 'Reduced Disclosure Framework' has 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 Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, enabling them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 29 June 2016 and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Corporate governance report

Introduction

The Directors recognise the importance of sound corporate governance and intend to observe and adhere to, so far as practicable, the recommendations set out in the corporate governance code for small and mid-size quoted companies, published by the Quoted Companies Alliance. For Mercia Technologies, good corporate governance is about ensuring that the Group is aligned with its shareholders' objectives and that the execution of the strategy adopted will create long-term incremental shareholder value. The business backgrounds of the Non-executive Directors in particular reflect the importance with which the Group regards corporate governance. In addition, the Group has joined the Quoted Companies Alliance during the year to further its understanding of, and adherence to, current good corporate governance practice.

The Board

The Board comprises 8 Directors, of which 4 are Executives and 4 are Non-executives. Collectively they reflect a balance of different skills, experiences and backgrounds. The Chief Financial Officer is also the Company Secretary.

The Board has a schedule of matters reserved for its approval including, inter alia, setting the Group's strategic direction, approving annual budgets, monitoring performance against plan and authorising all material direct investment decisions and all corporate transactions.

The Board will meet formally for a minimum of 11 times each year. During the year to 31 March 2016 the Board met 11 times. Details of attendance at those Board meetings is as follows:

Director	Number of meetings attended
Ray Chamberlain[1]	11
Dr Mark Payton	11
Martin Glanfield	11
Matthew Mead	11
Jonathan Diggines[2]	1
Susan Searle	11
Ian Metcalfe	11
Martin Lamb	11

1 Ray Chamberlain is entitled to appoint an alternate Director in his absence.
2 Jonathan Diggines attended the only meeting held since his appointment.

The Board delegates specific duties and responsibilities to certain committees and has established an Audit Committee, a Remuneration Committee and a Nominations Committee, as described more fully below except in respect of the Remuneration Committee, whose report is set out on pages 54 to 56 of this Annual Report. Subsequent to the year end Ray Chamberlain, the Group's Non-executive Chair, decided that having recently reached 70 years of age, it was an appropriate time for him to step down from his role. He remains on the Board as a Non-executive Director. Susan Searle, who had been Non-executive Deputy Chair of the Group, was appointed as the new Non-executive Chair on 25 May 2016, following the recommendation of her appointment by the Nominations Committee.

As a consequence of Susan's appointment, a number of changes to the composition of the Audit, Nominations and Remuneration Committees have also taken place since the year end. Martin Lamb has become Chair of the Audit Committee and Susan Searle has become Chair of the Nominations Committee, while Ian Metcalfe remains Chair of the Remuneration Committee. All 4 Non-executive Directors also now sit on all 3 committees.

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Group's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The Audit Committee will monitor the need for an internal audit function. During the year the Committee comprised its then Chair Susan Searle, Ian Metcalfe and Martin Lamb. Executive Directors attend by invitation. The Audit Committee met 3 times during the year under review at appropriate times in the reporting and audit cycle. It may also meet at other times if so required. It has unrestricted access to the Group's external auditor. All 3 meetings were fully attended.

Nominations Committee

The Nominations Committee is responsible for identifying and nominating members of the Board and recommending Directors to be appointed to each committee of the Board, including the Chair of each committee. During the year the Committee comprised Ray Chamberlain as Chair, Susan Searle and Ian Metcalfe. The Nominations Committee met twice during the year and may also do so as required. Both meetings were fully attended. The appointment of Jonathan Diggines as Executive Director, Funds was nominated by the Committee. The Nominations Committee will also arrange for the evaluation of the Board and has recently begun this process with the appointment of an external consultant to review the Board's effectiveness since IPO.

Internal controls

The Board acknowledges its overall responsibility for the Group's system of internal controls and the ongoing review of their effectiveness. These controls are designed to safeguard the Group's assets and are considered appropriate for an AIM listed group of the size and complexity of Mercia Technologies. However, systems of internal control can only identify and manage risks, not eliminate them. Consequently, such controls do not provide an absolute assurance against misstatement or loss. The main features of the Group's internal control system are as follows:

- A control environment exists through the close daily management of the business by the Executive Directors. The Group has a defined organisation structure with delineated investment approval limits. Controls are implemented and monitored by senior staff with the necessary qualifications and experience.
- A list of matters specifically reserved for Board approval.
- Regular detailed management reporting with comparisons and explanations of any material variances against budget or forecasts.
- Financial controls operate to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained.

Share dealing, anti-bribery and whistleblowing

The Group has adopted a share dealing code in conformity with the requirements of Rule 21 of the AIM Rules. All employees, including new joiners, are required to agree to comply with the code. The Group has also adopted anti-bribery and whistleblowing policies, which are included in every employee's staff handbook. The Group operates an open and inclusive culture and employees are encouraged to speak up if they have any concerns. The aim of such policies is to ensure that no blurred lines exist and to encourage all employees, regardless of seniority, to bring matters which cause them concern to the attention of either the Executive or Non-executive Directors. Subsequent to the year end the Group has adopted the requirements of the new Market Abuse Regulations, to the extent required by AIM listed companies.

Investor relations

The Group is committed to developing and maintaining open channels of communication with its shareholders and the www.merciatechnologies.com website provides up-to-date information on the Group. The Executive Directors are available to meet with shareholders and sector analysts at regular intervals throughout the year and the Non-executive Directors are also available for informal discussions if required. Shareholders will have an opportunity to raise questions with the Board at the Group's Annual General Meeting, which this year will be held on 19 September 2016.

Going concern

Based on the overall strength of the Group's balance sheet, including its significant liquidity position at the year end, together with its forecast future operating and investment performance, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have adopted the going concern basis in preparing the Annual Report and financial statements.

Martin Glanfield
Company Secretary
29 June 2016

Remuneration report

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chair, the Executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, share options and other long-term incentives. The remuneration of Non-executive Directors is a matter for the Chair and the Executive Directors. No Director is involved in any decision as to his or her own remuneration.

For the year to 31 March 2016 the Remuneration Committee comprised Ian Metcalfe as Chair, Ray Chamberlain and Susan Searle. The Remuneration Committee will meet at least twice a year and otherwise as required. During the past year the Committee has met 3 times formally and on other occasions on an 'as required' basis. Subsequent to the year end Martin Lamb joined the Committee.

Remuneration policy

The Remuneration Committee believes that the success of the Group depends, in part, on the performance of the management team and in being able to attract, retain and motivate people of high calibre and experience. The Committee also recognises the importance of ensuring that employees are incentivised and identify closely with the achievement of the Group's strategic objectives, the leading one of which is to achieve incremental shareholder value over the medium term.

Accordingly, the Committee seeks to provide a fair, balanced, competitive and affordable remuneration package for its Executive Directors and other employees, while ensuring that a significant proportion of the total remuneration of each Executive Director is linked to performance.

The main elements of the remuneration package for Executive Directors are base salary, an annual performance related bonus scheme and participation in the Group's long-term share option scheme and carried interest plan. Other benefits have included a car allowance, contributions to a defined contribution personal pension scheme, life assurance, private health insurance and permanent health insurance. Only base salaries are pensionable. In agreeing the Executive Director service contracts at the time of the IPO, the Committee took note of the views of the Group's Nominated Adviser, soundings from the Group's other advisers, and reviewed the remuneration packages of those executives holding similar positions and responsibilities in comparable AIM companies. More recently the Committee has engaged external remuneration consultants to review executive remuneration throughout the enlarged Group. Further details of the results of their review are set out below.

Remuneration policy review

The purpose of the Group's remuneration policy is to balance 3 key objectives, namely: to attract and retain talent, to focus behaviours and to be affordable. Within this context, the Committee's external adviser, MM&K, was asked to review whether the total remuneration packages of the Executive Directors and Investment Directors should be amended, being mindful of all stakeholder interests.

Due to the Group's early position in its growth cycle, there is a natural tension between 'affordability' and 'attract and retain talent' in what is increasingly becoming recognised as an attractive and competitive sector. The review has therefore focused on 4 elements of remuneration – base salary, annual bonuses, long-term incentives and benefits packages - in the context of current remuneration practices, the Group's own objective of sustained long-term capital growth and benchmarking the existing remuneration packages against a defined comparator group.

The review outputs, which have been endorsed by the Committee, include a recommendation that the Group adopts a policy of active remuneration review which is event rather than time driven, i.e. growing Net Asset Value ("NAV") above an agreed target. More specific recommendations in respect of the Executive Directors are summarised as follows:

Base salaries – these should move gradually towards lower quartile market levels of the comparator group, reflecting the lower market capitalisation of the Group in this early stage of its development.

Annual bonuses – the benchmarking review showed that the annual bonus potential of 25% of base salary was significantly 'off market'. Maximum bonuses of up to 100% of base salary should be capable of being earned for exceptional performance. The review also suggests that the Committee should consider deferring an element of future bonus awards into Mercia shares, to be retained for 3 years.

Long-term incentives – comparator investment groups typically implement carried interest plans which allocate 20% carry for the senior executive and investment team. Mercia's plan provides for 10% carry because the Group also has a share option scheme, although the current operation of the 2 schemes does not bring the senior team fully in line with 'market'. The review has therefore recommended that for at least the next 3 years, annual share option awards be made to Executive Directors at the level of 1 x base salary.

Benefits packages – car allowances are unusual within the comparator benchmarking group, so the review has recommended that these be folded into base salaries.

Having carefully considered these recommendations, the Committee has adopted them as the new performance focused remuneration policy. Recognising the importance of affordability however, the Committee and the Executive Directors have together agreed that 50% of base salary should be the maximum bonus for exceptional performance in 2016/17, while the Group continues to establish its investment track record and NAV growth trajectory. The Committee will consider a future move to 100% of base salary as a maximum bonus for exceptional performance in 2017/18.

Directors' service contracts

The table below summarises the service contract and letter of appointment details for each Executive and Non-executive Director as at the date of this report:

	Effective date of appointment	Annual salary £'000	Notice period
Ray Chamberlain	15 December 2014	40	3 months
Dr Mark Payton	15 December 2014	204	6 months
Martin Glanfield	1 October 2014	185	6 months
Matthew Mead	26 May 2015	193	6 months
Jonathan Diggines	9 March 2016	187	6 months
Susan Searle	15 December 2014	65	3 months
Ian Metcalfe	15 December 2014	40	3 months
Martin Lamb	13 January 2015	40	3 months

Equity-based incentive schemes

The Committee believes that equity-based incentive schemes increase the focus of employees on achieving the Group's medium-term strategic objectives, while at the same time providing a strong incentive for retaining and attracting individuals of high calibre. The Committee has implemented 2 long-term incentive schemes.

The Mercia Company Share Option Plan ("CSOP")

The Remuneration Committee is responsible for issuing awards of options to purchase Ordinary shares under the Group's share incentive plan, known as the Mercia CSOP, which was adopted by Mercia Technologies on 8 December 2014. All Executive Directors and employees are eligible to participate. The Committee intends that appropriate awards be made over time, not exceeding the limits contained in the CSOP.

The Mercia CSOP comprises 2 parts. The first part satisfies the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 (so that options granted under it are subject to capital gains tax treatment). The second part will be used to grant options which cannot be granted within the limit prescribed by the applicable tax legislation and which will not therefore benefit from favourable tax treatment. No options will be granted under the Mercia CSOP more than 10 years after its adoption. The number of Ordinary shares over which options may be granted on any date is limited so that the total number of Ordinary shares issued and issuable in respect of options granted in any 10 year period under the Mercia CSOP and any other employee share scheme is restricted to 10% of the issued Ordinary shares from time to time.

The first options granted under the Mercia CSOP ('Initial Options') have an exercise price equal to the IPO Placing price, being 50p, which was agreed with HMRC as not less than the market value of an Ordinary share for the purpose of making the first grants. Awards are subject to a performance condition. The condition shall be satisfied if the total shareholder return (being the increase in the price of an Ordinary share from a 50p base value plus any dividend yield), from Admission to the third anniversary of Admission, is not less than 6% (compound) per annum. Initial Options were conditionally granted on 8 December 2014 and became unconditional on Admission. Further options were subsequently issued during the year to Matthew Mead and to other new joiners. The total number of options in issue at the year end was 4,420,000 (2015: 3,060,000).

The Initial Options will be exercisable as to one-third on or after the third anniversary of Admission, one-third on or after the fourth anniversary, with the remaining one-third on or after the fifth anniversary, provided that on each vesting date the performance condition has been satisfied. The options subsequently granted to Matthew Mead and other new staff have the same performance and exercise criteria.

The methodology for determining the market value of an Ordinary share for all future grants of options under the Mercia CSOP has also been agreed with HMRC, such that the Group will use the mid-market price quoted by the London Stock Exchange on the trading day immediately preceding the date of grant.

The Mercia Carried Interest Plan ("CIP")

Mercia operates a carried interest plan for the Executive Directors and certain other investment executives ('Plan Participants'). Each CIP will operate in respect of direct investments made by Mercia Technologies during a 24 month period, save that the first CIP is for the period from the plan's adoption on 1 August 2015 to 31 March 2017.

Once Mercia Technologies has received an aggregate annualised 6% realised return during the relevant investment period, Plan Participants will receive, in aggregate, 10% of the net realised cash profits from the direct investments made over the relevant period. Plan Participants' carried interest will be subject to good and bad leaver provisions.

In addition, Mercia Technologies has implemented a Phantom Carried Interest Plan ("PCIP"), based on the above criteria, in respect of the direct investments which the Group acquired shortly before Admission and those new direct investments made in the post IPO period leading up to the implementation of the CIP on 1 August 2015.

Audited information

The following section contains the disclosures required by the AIM Rules and by UK company law.

Directors' remuneration

The aggregate remuneration received by the Directors who served during the year is set out below:

	Salaries and fees payable		Pension contributions		Taxable benefits		IPO bonus		Performance related bonus		Total	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Executive Directors												
Dr Mark Payton	**185**	126	**20**	14	**9**	10	**–**	67	**46**	9	**260**	226
Martin Glanfield	**175**	88	**19**	9	**9**	4	**–**	33	**44**	10	**247**	144
Matthew Mead	**144**	–	**16**	–	**8**	–	**–**	–	**43**	–	**211**	–
Jonathan Diggines[1]	**179**	–	**7**	–	**1**	–	**–**	–	**–**	–	**187**	–
Non-executive Directors												
Ray Chamberlain	**65**	22	**–**	–	**–**	–	**–**	–	**–**	–	**65**	22
Susan Searle	**45**	15	**–**	–	**–**	–	**–**	20	**–**	–	**45**	35
Ian Metcalfe	**40**	20	**–**	–	**–**	–	**–**	–	**–**	–	**40**	20
Martin Lamb	**40**	9	**–**	–	**–**	–	**–**	–	**–**	–	**40**	9
	873	280	**62**	23	**27**	14	**–**	120	**133**	19	**1,095**	456

1 Jonathan Diggines' total remuneration includes his salary and benefits paid by Enterprise Ventures prior to its acquisition by Mercia Technologies.

Share options

The number of options over Mercia Technologies Ordinary shares held by Directors as at 31 March 2016 is set out below:

	Number of options granted during the year	Date of grant	Number of options at year end	Exercise price per Ordinary share	Period of exercise
Executive Directors					
Dr Mark Payton[1]	–	–	1,000,000	50.0p	18 Dec 2017 to 7 Dec 2024
Martin Glanfield[1]	–	–	1,000,000	50.0p	18 Dec 2017 to 7 Dec 2024
Matthew Mead[2]	42,857	31 Jul 2015	42,857	70.0p	31 Jul 2018 to 30 Jul 2025
	957,143	31 Jul 2015	957,143	57.5p	31 Jul 2018 to 30 Jul 2025
	1,000,000		1,000,000		

1 The options will be exercisable as to one-third from 18 December 2017, one-third from 18 December 2018 and the remaining one-third from 18 December 2019.
2 The options will be exercisable as to one-third from 31 July 2018, one-third from 31 July 2019 and the remaining one-third from 31 July 2020.

Directors' share interests

The interests of the Directors and their connected persons in the Ordinary shares of Mercia Technologies are set out below:

	Number of Ordinary shares as at 31 March 2016	Number of Ordinary shares as at 29 June 2016
Ray Chamberlain[1]	58,374,710	58,374,710
Dr Mark Payton	6,622,863	6,622,863
Martin Glanfield	260,760	260,760
Matthew Mead	43,121	43,121
Jonathan Diggines	803,571	803,571
Susan Searle	1,043,040	1,043,040
Ian Metcalfe	100,000	100,000
Martin Lamb	100,000	100,000

1 Ray Chamberlain is personally interested in 6,149,752 Ordinary shares. The remaining 52,224,958 Ordinary shares are held by the Forward Innovation Fund (31,622,280 Ordinary shares), Croftdawn Limited (3,994,786 Ordinary shares), Mercia Growth Nominees Limited (126,436 Ordinary shares) and Forward Nominees Limited (16,481,456 Ordinary shares as nominee for certain members of the Chamberlain family including Ray Chamberlain).

Ian Metcalfe
Chair of the Remuneration Committee
29 June 2016

Independent auditor's report to the members of Mercia Technologies PLC

We have audited the financial statements of Mercia Technologies PLC for the year ended 31 March 2016 which comprise the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated cash flow statement and the related notes 1 to 40. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Group'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 Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the AIM rules; and
- 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.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Group or the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group or 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.

Andrew Halls FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Birmingham, United Kingdom
29 June 2016

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Note	**Year ended 31 March 2016 £'000**	Period ended 31 March 2015 £'000
Revenue	3	**1,755**	508
Cost of sales		**(79)**	(10)
Gross profit		**1,676**	498
Fair value movements in investments	4	**896**	3,934
Administrative expenses:			
Share-based payments charge	6	**(230)**	(44)
Amortisation of intangible assets	7	**(17)**	–
Other administrative expenses		**(4,011)**	(1,495)
Operating (loss)/profit before exceptional items	7	**(1,686)**	2,893
Exceptional items	8	**(372)**	(1,018)
Operating (loss)/profit		**(2,058)**	1,875
Finance income	9	**361**	93
(Loss)/profit before taxation		**(1,697)**	1,968
Taxation	10	**–**	–
(Loss)/profit and total comprehensive (loss)/income for the financial year/period		**(1,697)**	1,968
Basic and diluted (loss)/earnings per Ordinary share (pence)	11	**(0.80)**	0.93

All results derive from continuing operations.

The notes on pages 62 to 79 are an integral part of these financial statements.

Consolidated balance sheet
As at 31 March 2016

	Note	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Assets			
Non-current assets			
Goodwill	12	**10,328**	2,455
Intangible assets	14	**1,487**	–
Property, plant and equipment	15	**145**	49
Investments	16	**38,143**	24,617
Total non-current assets		**50,103**	27,121
Current assets			
Trade and other receivables	17	**798**	716
Short-term liquidity investments	18	**10,000**	30,000
Cash and cash equivalents	18	**20,932**	23,633
Total current assets		**31,730**	54,349
Total assets		**81,833**	81,470
Current liabilities			
Trade and other payables	19	**(1,521)**	(631)
Non-current liabilities			
Deferred taxation	20	**(271)**	–
Total liabilities		**(1,792)**	(631)
Net assets		**80,041**	80,839
Equity			
Issued share capital	21	**2**	2
Share premium	22	**9,494**	8,825
Other distributable reserve	23	**70,000**	70,000
Retained earnings		**271**	1,968
Share-based payments reserve		**274**	44
Total equity		**80,041**	80,839

The notes on pages 62 to 79 are an integral part of these financial statements.

The consolidated financial statements of Mercia Technologies PLC, registered number 09223445, on pages 58 to 79 were approved by the Board of Directors and authorised for issue on 29 June 2016. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Consolidated cash flow statement

As at 31 March 2016

	Note	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Cash flows from operating activities:			
Operating (loss)/profit		**(2,058)**	1,875
Adjustments to reconcile operating profit to net cash flows used in operating activities:			
Depreciation of property, plant and equipment	15	**33**	6
Fair value movements in investments	4	**(896)**	(3,934)
Share-based payments charge	6	**230**	44
Amortisation of intangible assets	14	**17**	–
Working capital adjustments:			
Decrease/(increase) in trade and other receivables	17	**522**	(507)
Increase in trade and other payables	19	**128**	487
Net cash used in operating activities		**(2,024)**	(2,029)
Cash flows from investing activities:			
Purchase of direct investments	16	**(13,108)**	(11,687)
Investee company loan repayment	16	**94**	–
Cash received on the dissolution of Mercia Fund 2	16	**384**	–
Purchase of subsidiary undertaking	13	**(10,262)**	–
Cash acquired on purchase of subsidiary undertaking	13	**1,953**	124
Net cash flow from direct investment activity and the purchase of subsidiary undertakings		**(20,939)**	(11,563)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	15	**(113)**	(27)
Interest received		**397**	22
Decrease/(increase) in short-term liquidity investments	18	**20,000**	(30,000)
Net cash generated from/(used in) other investing activities		**20,284**	(30,005)
Net cash used in total investing activities		**(655)**	(41,568)
Cash flows from financing activities:			
Proceeds from issue of Ordinary shares		**–**	70,000
Transaction costs relating to issue of Ordinary shares	8	**(22)**	(2,770)
Net cash (used)/generated from financing activities		**(22)**	67,230
Net (decrease)/increase in cash and cash equivalents		**(2,701)**	23,633
Cash and cash equivalents at the beginning of the year/period		**23,633**	–
Cash and cash equivalents at the end of the year/period	18	**20,932**	23,633

Transaction costs relating to issue of Ordinary shares have been deducted from share premium.

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Issued share capital £'000 (note 21)	Share premium £'000 (note 22)	Other distributable reserve £'000 (note 23)	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 17 December 2014	–	–	–	–	–	–
Profit and total comprehensive income for the period	–	–	–	1,968	–	1,968
Issue of share capital	2	81,595	–	–	–	81,597
Costs of share capital issued	–	(2,770)	–	–	–	(2,770)
Share premium reduction	–	(70,000)	70,000	–	–	–
Share-based payments charge	–	–	–	–	44	44
As at 31 March 2015	2	8,825	70,000	1,968	44	80,839
Loss and total comprehensive loss for the year	–	–	–	(1,697)	–	(1,697)
Issue of share capital	–	691	–	–	–	691
Costs of share capital issued	–	(22)	–	–	–	(22)
Share-based payments charge	–	–	–	–	230	230
As at 31 March 2016	**2**	**9,494**	**70,000**	**271**	**274**	**80,041**

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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 throughout the year unless otherwise stated.

General information

Mercia Technologies PLC ('the Group', 'Mercia') is a public limited company incorporated and domiciled in the United Kingdom, with registered number 09223445. Its Ordinary shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The registered office address is Mercia Technologies PLC, Forward House, 17 High Street, Henley-in-Arden, B95 5AA. Mercia Technologies PLC's Ordinary shares were admitted to trading on AIM on 18 December 2014.

Details of the Group's activities and strategy are given in the Strategic Report which begins on page 4.

Basis of preparation

The consolidated financial statements of Mercia Technologies PLC have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards ("IFRSs"), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee ("IFRIC")) interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRSs as endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The financial statements have been prepared on the going concern basis, as explained in the Corporate Governance Report on page 53, 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 Accounting Standard ("IAS") 39 'Financial Instruments: Recognition and Measurement', and explained further in the accounting policies below.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. These are described more fully below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of Mercia Technologies PLC and entities controlled by it (its subsidiaries). Other than Mercia Fund 1 General Partner Limited (which is 98% owned) and Mercia Investment Plan LP (which is 90% owned), all subsidiaries are 100% equity owned and have been included in the consolidated financial statements.

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to a variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee company if facts and circumstances indicate that there are changes to one or more of the 3 elements of control listed above.

When the Group has less than a majority of the voting rights of an investee company, it considers that it has power over the investee company when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee company unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee company are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

1. Accounting policies continued

Basis of consolidation continued

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group. Both the identifiable net assets and the consideration transferred in the acquisition are measured at fair value at the date of acquisition and transaction costs are expensed as incurred. Goodwill arising on acquisitions is tested annually for impairment.

Investments in associates

Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 'Investments in Associates', which requires such investments to be excluded from its scope where those investments are designated upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', with changes in fair value recognised in the relevant period.

New standards, interpretations and amendments not yet effective

At the date of approving these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (amendments)	Equity Method in Separate Financial Statements
IAS 36 (amendments)	Recoverable Amount Disclosures for Non-Financial Assets
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Annual Improvements to IFRSs: 2010–2012	Amendments to: IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets
Annual Improvements to IFRSs: 2011–2013	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property
Annual Improvements to IFRSs: 2012–2014	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

The Directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in future years.

1. Accounting policies continued

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 as the related services are provided.

Initial management fees

Initial management fees are generally earned as a fixed percentage of the amounts invested by the Group, are one-off payments made by the investee company and are recognised upon completion of the investment.

Portfolio directors' fees

Portfolio directors' fees are earned either as a percentage of the amounts invested by the Group, or as a fixed amount. These are annual fees, typically charged quarterly in advance to the investee company. Amounts are initially recorded as deferred income, included under current liabilities and amortised in the consolidated statement of comprehensive income over the period to which the services relate.

Interest income

Interest income earned on cash deposits and short-term liquidity investments is recognised when it is probable that the economic benefits will flow to the Group 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 effective interest rate applicable.

Exceptional items

The Group 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 Group. 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 consolidated statement of comprehensive income.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 period and contributions actually paid are shown as either accruals or prepayments in the consolidated 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 consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. Accounting policies continued

Taxation continued

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 Group 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.

Intangible assets

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

Intangible assets represent contractual arrangements in respect of third party limited partners' and other similar investors' funds under management acquired through the acquisition of Enterprise Ventures Group Limited ('Enterprise Ventures'). At the date of acquisition the fair value of these 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 average duration of the remaining fund management contracts of 5 years, so as to write off the fair value of the contracts over their estimated values.

Goodwill

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

Property, plant and equipment

Tangible assets 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:

Fixtures, fittings and office equipment	33%
Leasehold improvements	over the remaining life of the lease

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 Group's balance sheet when the Group 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 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.

1. Accounting policies continued

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are either financial assets held for trading or financial assets that are designated at FVTPL. The Group has investments in unlisted shares that are not traded in an active market but are classified as financial assets at FVTPL and stated at fair value because the Directors consider that fair value can be reliably measured. Fair value is determined in the manner described in note 2 of these financial statements. Gains and losses arising from changes in fair value are recognised in profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'fair value movements in investments' line in the consolidated statement of comprehensive income.

Valuation of financial assets held at fair value

The fair values of quoted investments are based on bid prices at the balance sheet date.

The judgement required to determine the appropriate valuation methodology of unquoted equity investments means there is a risk of material adjustment to the carrying amounts of assets and liabilities. This is a critical accounting judgement and, as a result, is set out in more detail in note 2 of these financial statements.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds are received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

1. Accounting policies continued

Provisions continued

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.

Cash, cash equivalents and short-term liquidity investments

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of less than 3 months. Short-term liquid investments with a maturity of over 3 months and less than 12 months are included in a separate category, 'short-term liquidity investments'.

Share-based payments

Equity-settled share-based payments to Executive Directors and certain employees of the Group, whereby recipients render services in exchange for shares or rights over shares, are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 6.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the equity instruments that will eventually vest. At each balance sheet date, the Group reviews its estimate. The impact of any revision to the previous estimate is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Segmental reporting

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. Operating segments are aggregated into reporting segments where they share similar economic characteristics. Note 3 to these financial statements gives further details on the Group's segmental reporting.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies 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.

Fair value measurements and valuation processes

The judgements required to determine the appropriate valuation methodology of unquoted equity investments means there is risk of a material adjustment to the carrying amounts of assets and liabilities. These judgements include a decision whether or not to impair or uplift investment valuations.

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

Fair value measurements and valuation processes continued

The fair value of unlisted securities is established using the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG"). The valuation methodology most commonly used by the Group is 'price of recent investment', which can be either the 'price of recent funding round' or 'cost' in the case of a new direct investment. Given the nature of the Group's investments in early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of commercial development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and, accordingly, where there has been any recent investment by third parties, the price of that investment will generally provide a basis for the valuation. Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical or commercial performance of the underlying business.

If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies, which are referred to in the IPEVCV guidelines, being principally financial measures ('enterprise values'), such as trading and profitability expectations, requiring the Directors to make assumptions over the timing and nature of future revenues when calculating fair value. Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since been impaired.

All recorded values of investments are regularly reviewed for any indication of impairment and adjusted accordingly. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment. During this period the Group considers whether any changes or events subsequent to the transaction would imply that a change in the fair value of the investment may be required. Where the Group considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Group. However, any adjustment is, by its very nature, subjective. Where deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation, the Group may consider increasing the carrying value of the investment. However, in the absence of additional financing rounds or profit generation, it can be difficult to determine the value that a purchaser may place on positive developments, given the potential outcome and the costs and risks to achieving that outcome.

3. Segmental reporting

For the year ended 31 March 2016, the Group's revenue and loss were derived from its principal activity within the United Kingdom.

IFRS 8 'Operating Segments' defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors. The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being Technology Transfer and Investment, because the results of the Group are monitored on a Group-wide basis. The Board of Directors assesses the performance of the operating segment using financial information which is measured and presented in a consistent manner.

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

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Fund management fees	**473**	99
Initial management fees	**642**	310
Portfolio directors' fees	**536**	73
Other revenue	**104**	26
	1,755	508

4. Fair value movements in investments

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Net fair value movements in investments held (note 16)	**896**	3,934

No other gains or losses have been recognised in respect of loans and receivables. No gains or losses have been recognised on financial liabilities measured at amortised cost.

5. Employees and Directors

The average number of persons (including Executive and Non-executive Directors) employed by the Group during the year was:

	Year ended 31 March 2016 Number	Period ended 31 March 2015 Number
Technology Transfer and Investment	**10**	5
Central functions	**14**	10
	24	15

Central functions comprise senior management (including Executive and Non-executive Directors), finance, health and safety, human resources, administration and marketing.

The aggregate employee benefit expense (including Executive and Non-executive Directors) was:

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Wages and salaries	**2,075**	669
Social security costs	**267**	320
Other pension costs (note 24)	**161**	37
	2,503	1,026

The Directors represent the key management personnel. Detailed disclosures in respect of Directors' remuneration are included in the audited section of the Remuneration Report on page 56, which forms part of these financial statements.

6. Share-based payments

The Group operates share option schemes for Executive Directors and employees of the Group. On 8 December 2014 3,060,000 options were granted and became unconditional on 18 December 2014, the date of the Group's admission to AIM. During the year ended 31 March 2016, a further 1,510,000 options were granted to employees and 150,000 options were forfeited. Further details are set out on pages 54 to 56 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2016 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	18 December 2014	7 December 2024	480,000	50.0p
	31 July 2015	30 July 2025	42,857	70.0p
	11 August 2015	10 August 2025	173,912	69.0p
Unapproved share option scheme	18 December 2014	7 December 2024	2,430,000	50.0p
	31 July 2015	30 July 2025	957,143	57.5p
	11 August 2015	10 August 2025	336,088	57.5p
			4,420,000	

6. Share-based payments continued

Details of the movements in share options during the year to 31 March 2016 are as follows.

	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April 2015	3,060,000	50.0p
Granted during the year	1,510,000	59.2p
Forfeited during the year	(150,000)	50.0p
Exercised during the year	–	–
Expired during the year	–	–
Share options outstanding as at 31 March 2016	**4,420,000**	**53.1p**

Fair value charge

The fair value charge for the share options in issue has been based on the Black-Scholes model with the following key assumptions:

Date of grant	Exercise price	Share price at date of grant	Risk free rate	Assumed time to exercise	Assumed volatility	Fair value per option
18 December 2014	50.0p	50.0p	1.0%	10 years	30%	19.8p
31 July 2015	70.0p	70.0p	1.0%	10 years	30%	27.8p
31 July 2015	57.5p	70.0p	1.0%	10 years	30%	32.2p
11 August 2015	69.0p	69.0p	1.0%	10 years	30%	27.4p
11 August 2015	57.5p	69.0p	1.0%	10 years	30%	31.5p

No dividends are assumed. The risk free rate is taken from the yield on zero coupon United Kingdom government bonds on a term consistent with the expected life. Assumed volatility is based on a review of comparators and analysis of movements in the Group's share price since listing.

The Group did not enter into any share-based payment transactions with parties other than Executive Directors and employees during the year.

The total charge for the year recognised in the consolidated statement of comprehensive income for share options granted to Executive Directors and employees was £230,000 (2015: £44,000).

7. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Staff costs (note 5)	**2,503**	1,026
Share-based payments charge (note 6)	**230**	44
Depreciation of property, plant and equipment (note 15)	**33**	6
Amortisation of intangible assets (note 14)	**17**	–
Operating lease costs	**205**	62
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**30**	25
Fees payable to the Company's auditor for other services:		
– The auditing of accounts of subsidiaries of the Company	**21**	16
– CASS related assurance services	**15**	–
– Taxation compliance services	**12**	12
– Corporate finance services	**87**	220
– All other non-audit services	**4**	5

As part of the Group's acquisition of Enterprise Ventures, auditor's due diligence fees were incurred totalling £97,000 of which £10,000 is included in equity as share issue related costs.

8. Exceptional items

The exceptional item for the year ended 31 March 2016 represents costs incurred in the acquisition of Enterprise Ventures. Total acquisition costs amounted to £394,000. Of this total £22,000 were share issue related costs and have been charged to the share premium account (note 22). The balance of £372,000 has been charged to the consolidated statement of comprehensive income, as an exceptional non-trading and non-recurring cost. The prior period exceptional item represents costs incurred in the listing of the Group's shares on AIM.

9. Finance income

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Interest income arising from:		
Cash and cash equivalents	**134**	53
Short-term liquidity investments	**207**	40
Investee company loans	**20**	–
Total interest receivable	**361**	93

10. Taxation

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Corporation tax:		
Current year	**–**	–
Deferred tax	**–**	–
Total	**–**	–

The UK standard rate of corporation tax is 20% (2015: 21%). There is no current or deferred tax charge in the year (2015: £nil).

A reconciliation from the reported (loss)/profit to the total tax charge is shown below.

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
(Loss)/profit before taxation	**(1,697)**	1,968
Tax at the standard rate of corporation tax in the UK of 20% (2015: 21%)	**(339)**	413
Effects of:		
Income not subject to tax	**(64)**	(826)
Expenses not deductible for tax purposes	**165**	249
Accelerated capital allowances not recognised	**10**	(4)
Other timing differences not recognised	**103**	8
Current year losses not recognised	**125**	160
Total tax charge	**–**	–

As at 31 March 2016, a deferred tax liability of £271,000 (2015: £nil) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures. A deferred tax asset of £2,756,000 (2015: £2,936,000) has not been recognised due to uncertainty regarding its future recoverability.

11. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the financial year/period by the weighted average number of Ordinary shares in issue during the year/period. Diluted (loss)/earnings per share is computed by dividing the (loss)/profit for the financial year/period by the weighted average number of Ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options on an as-if-converted basis. The potential dilutive shares are included in diluted (loss)/earnings per share computations on a weighted average basis for the year/period. The (loss)/profit and weighted average number of shares used in the calculations are set out below.

	Year ended 31 March 2016	Period ended 31 March 2015
(Loss)/earnings per Ordinary share		
(Loss)/profit for the financial year/period (£'000)	**(1,697)**	1,968
Weighted average number of Ordinary shares (basic and diluted) ('000)	**212,099**	212,000
(Loss)/earnings per Ordinary share basic and diluted (pence)	**(0.80)**	0.93

12. Goodwill

	£'000
Cost	
As at 17 December 2014	–
Additions	2,455
As at 31 March 2015	2,455
Additions (note 13)	7,873
As at 31 March 2016	**10,328**

Goodwill of £7,873,000 arose on the acquisition of the entire issued share capital of Enterprise Ventures Group Limited ('Enterprise Ventures') on 9 March 2016. This represents the difference between the fair value of consideration transferred and the fair value of assets acquired and liabilities assumed, details of which are set out in note 13.

13. Subsidiaries

The Group consists of Mercia Technologies PLC and its subsidiary undertakings. Note 32 to the Company's financial statements lists details of all material interests in subsidiary undertakings.

On 9 March 2016 Mercia Technologies acquired Enterprise Ventures' entire issued share capital for £10,953,000 and an amount equal to Enterprise Ventures' net cash at completion which was £1,953,000. The initial consideration was £9,000,000 comprising £8,309,000 satisfied in cash on completion (which was funded from the Group's existing cash resources) and £691,000 satisfied by the issue of 1,645,711 initial consideration shares at a price of 42.0 pence (being the average of the daily closing mid-market price for an Ordinary share of Mercia Technologies for the 5 trading days immediately preceding completion).

Deferred consideration of up to £2,000,000 will also be payable, contingent upon Enterprise Ventures raising at least £80,000,000 of net new third party funds during the 2 year period post completion. The deferred consideration has not been accounted for in the consolidated statement of comprehensive income, cost of investment or goodwill balances as at 31 March 2016 due to the level of uncertainty as to whether the £80,000,000 of net new funds will be raised within the 2 year period.

To the extent payable, the deferred consideration will be satisfied by the issue of additional Mercia Technologies Ordinary shares, at a price which will be determined by the average of the daily closing mid-market price for an Ordinary share for the 5 trading days immediately following the end of the 2 year deferred consideration period.

The Enterprise Ventures vendors have all agreed not to dispose of any of their initial consideration shares for at least 18 months following issue, nor any of their deferred consideration shares for a minimum period of 12 months following issue.

13. Subsidiaries continued

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed in respect of Enterprise Ventures are set out in the table below.

	Enterprise Ventures Group Limited £'000
Financial assets	
Property, plant and equipment	16
Investments	–
Trade and other receivables	640
Cash and cash equivalents	1,953
Total assets	**2,609**
Financial liabilities	
Trade and other payables	762
Deferred tax liability	271
Total liabilities	**1,033**
Net identifiable assets	1,576
Goodwill (note 12)	7,873
Intangible assets (note 14)	1,504
Total consideration transferred	**10,953**
Satisfied by:	
Cash	10,262
Equity instruments	691
Total consideration transferred	**10,953**

14. Intangible assets

Intangible assets represent contractual arrangements in respect of funds under management acquired through the acquisition of Enterprise Ventures, where it is probable that the future economic benefits that are attributable to the assets will flow to the Group and the fair value of the assets can be measured reliably.

	Total £'000
Cost	
As at 1 April 2015	–
Additions	1,504
As at 31 March 2016	**1,504**
Accumulated amortisation	
As at 1 April 2015	–
Charge for the year	17
As at 31 March 2016	**17**
Net book value	
As at 31 March 2015	–
As at 31 March 2016	**1,487**

15. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 17 December 2014	–	–	–	–
Additions	–	–	36	36
On acquisition	–	–	32	32
As at 31 March 2015	–	–	68	68
Additions	36	32	45	113
On acquisition	–	27	106	133
As at 31 March 2016	**36**	**59**	**219**	**314**
Accumulated depreciation				
As at 17 December 2014	–	–	–	–
Charge for the period	–	–	6	6
On acquisition	–	–	13	13
As at 31 March 2015	–	–	19	19
Charge for the year	1	3	29	33
On acquisition	–	21	96	117
As at 31 March 2016	**1**	**24**	**144**	**169**
Net book value				
As at 31 March 2015	–	–	49	49
As at 31 March 2016	**35**	**35**	**75**	**145**

16. Investments

The net change in the fair value of investments for the year is £13,526,000 (2015: £24,617,000).

The table below sets out the movement in the balance sheet value of investments from the start to the end of the year, showing investments made, cash receipts and the direct investment fair value movements.

	£'000
As at 1 April 2015	24,617
Investments made during the year	13,108
Investee company loan repayments	(94)
Cash received on the dissolution of Mercia Fund 2	(384)
Unrealised gains on the revaluation of investments	1,582
Unrealised losses on the revaluation of investments	(686)
As at 31 March 2016	**38,143**

In accordance with the Group's accounting policy, investments that are held as part of the Group's direct investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 'Investments in Associates'. As at 31 March 2016, the Group had investments where it holds an economic interest of 20% or more as follows:

	Interest held %	Net assets/ (liabilities) £'000	Profit/(loss) £'000	Date of financial statements
Warwick Audio Technologies Limited	65.2	113	(1,048)	30 September 2014
Science Warehouse Limited	62.6	2,658	(97)	31 March 2015
nDreams Limited	40.0	1,692	(644)	31 March 2015
LM Technologies Limited	37.1	498	44	31 December 2014
The Native Antigen Company Limited	35.6	506	(128)	30 September 2015
Oxford Genetics Limited	34.7	183	(134)	30 April 2015
Soccer Manager Limited	29.9	423	(664)	31 August 2015
Smart Antenna Technologies Limited	29.5	253	(356)	30 April 2015
VirtTrade Limited	28.4	826	(1,024)	31 August 2015
Crowd Reactive Limited	28.3	31	(57)	31 December 2014
Edge Case Games Limited	21.2	1,259	(199)	30 September 2015

17. Trade and other receivables

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Current:		
Trade and other receivables	**380**	308
Less: provision for impairment of trade receivables	**(107)**	(14)
Net trade receivables	**273**	294
Other receivables	**52**	208
Prepayments and accrued income	**473**	214
	798	716

The ageing of trade receivables at the year end was as follows:

	Gross £'000	Impairment £'000
Not past due	131	–
Past due 0–30 days	27	(2)
Past due 31–60 days	14	–
Past due 61–90 days	15	–
Past due more than 91 days	193	(105)
	380	**(107)**

Movements in the provision for impairment of trade receivables is as follows:

	£'000
As at 1 April 2015	14
Provisions made	103
Amounts written off during the year	(10)
As at 31 March 2016	**107**

The impairment provision at 31 March 2016 relates to trade receivables from portfolio companies. The Directors believe that the credit quality of trade receivables which are within the Group's typical payment terms is good.

The increase in the provision of £103,000 (2015: £14,000) has been included in other administrative expenses in the consolidated statement of comprehensive income. The maximum exposure to credit risk of the receivables at the balance sheet date is the fair value of each class of receivable shown above.

18. Cash, cash equivalents and short-term liquidity investments

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Cash at bank and in hand	**20,932**	23,633
Total cash and cash equivalents	**20,932**	23,633
Total short-term liquidity investments	**10,000**	30,000

19. Trade and other payables

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Trade payables	**370**	115
Tax and social security	**204**	51
Other payables	**33**	30
Accruals and deferred income	**914**	435
	1,521	631

20. Deferred taxation

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Recognition of deferred tax liability	**271**	–

As at 31 March 2016 a deferred tax liability of £271,000 (2015: £nil) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

21. Share capital

	As at 31 March 2016		As at 31 March 2015	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year/period	**212,000,000**	**2**	–	–
Issue of share capital during the year/period	**1,645,711**	**–**	212,000,000	2
As at the end of the year/period	**213,645,711**	**2**	212,000,000	2

On 18 December 2014 212,000,000 new Ordinary shares of £0.00001 each were admitted to trading on AIM.

On 9 March 2016 1,645,711 new Ordinary shares of £0.00001 each were issued at a price of £0.42 as part of the initial consideration for the acquisition of Enterprise Ventures (note 13). These shares were admitted to trading on AIM on 16 March 2016.

Each Ordinary share is entitled to one vote and has equal rights as to dividends. The Ordinary shares are not redeemable.

22. Share premium account

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
As at the beginning of the year/period	**8,825**	–
Premium arising on the issue of Ordinary shares	**691**	81,595
Cost of share capital issued	**(22)**	(2,770)
Capital reduction	**–**	(70,000)
As at the end of the year/period	**9,494**	8,825

The premium on the issue of Ordinary shares in the year arises from 1,645,711 new Ordinary shares of £0.00001 each issued at a price of £0.42 on 9 March 2016 as part consideration for the acquisition of the entire issued share capital of Enterprise Ventures.

23. Other distributable reserve

On 18 March 2015, the Group successfully applied to the Court for the partial cancellation of its share premium account. £70,000,000 was transferred from the share premium account to a distributable reserve, thereby allowing the Group flexibility to pay a dividend distribution to shareholders in the future.

24. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2016 was £161,000. As at 31 March 2016, contributions amounting to £24,000 had not yet been paid over to the plans and are recorded in other payables (note 19).

25. Operating lease commitments

At the year end, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	As at 31 March 2016		As at 31 March 2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	**312**	**8**	186	3
In the second to fifth years inclusive	**150**	**4**	319	3
	462	**12**	505	6

Operating lease payments represent rentals payable by the Group for office premises and office equipment. The lease term in respect of the head office premises is 10 years with a break clause after 3 years. The typical lease term for office equipment is 3 years.

26. Financial risk management

In its normal course of business, the Group uses certain financial instruments including cash, trade and other receivables and equity investments. The Group is exposed to a number of risks through the performance of its normal operations. These are discussed in more detail in the Strategic Report on pages 21 to 22 of this Annual Report.

Categories of financial instruments

The Group recognises financial instruments in its financial statements when it enters into a binding agreement to receive cash or other economic benefits and derecognises them once all parties to the agreements have discharged all of their obligations. The Group's financial instruments are categorised below.

Assets per the balance sheet as at the year/period end:

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Trade and other receivables	**325**	502
Financial assets at fair value through profit or loss	**38,143**	24,617
Short-term liquidity investments	**10,000**	30,000
Cash and cash equivalents	**20,932**	23,633
	69,400	78,752

Liabilities per the balance sheet as at the year/period end:

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Trade and other payables (excluding accruals, tax and social security)	**403**	145
	403	145

Financial risk management objectives

The Group's main objective in using financial instruments is to create, fund and develop technology businesses through the raising and investing of capital for this purpose. The Group's policies in calculating the nature, amount and timing of investments are determined by forecast future investment activity. Financial risks are usually grouped by risk type, being: market, liquidity and credit risk. These risks are identified more fully below.

Market risk

Price risk

The Group is exposed to price risk in respect of equity rights and equity investments held by the Group and classified on the balance sheet at fair value through profit or loss. The Group seeks to manage this risk by routinely monitoring the performance of these investments, employing stringent investment appraisal processes. Regular reports are made to the Board on the status and valuation of investments.

Interest rate risk

The Group holds no interest-bearing borrowing and, as such, has fully mitigated such a risk.

Liquidity risk

Cash and cash equivalents include cash in hand and deposits held with UK banks with original maturities of less than 3 months.

Short-term liquidity investments comprise deposits with a maturity of over 3 months but less than 12 months, also with UK banks.

Ultimate responsibility for liquidity risk management rests with the Directors, who have established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's trade receivables are amounts due from the investment funds under management, from those investee companies held by the MFM and Enterprise Ventures funds and from its directly invested portfolio companies.

26. Financial risk management continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of any debt and equity balance.

The capital structure of the Group consists solely of equity (comprising issued capital, reserves and retained earnings). The Group had no debt instruments during the year.

Fair value measurements

The fair values of the Group's financial assets and liabilities are considered a reasonable approximation to the carrying values shown in the balance sheet. Subsequent to their initial recognition at fair value, measurements of movements in fair values of financial instruments are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The fair value hierarchy used is outlined in more detail in note 2 to these financial statements.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined and presents the Group's assets that are measured at fair value as at 31 March 2016.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets:				
Financial assets at fair value through profit or loss ("FVTPL")	184	–	37,959	38,143
	184	**–**	**37,959**	**38,143**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

Financial instruments in Level 1

As at 31 March 2016, the Group had 1 direct investment listed on AIM (Abzena plc) and this has been classified as Level 1 and valued at its bid price as at 31 March 2016.

Financial instruments in Level 3

If one or more of the significant inputs required to fair value an instrument is not based on observable market data, the instrument is included in Level 3. Apart from the 1 investment classified as Level 1, all other investments held in the Group's direct investment portfolio have been classified as Level 3 in the fair value hierarchy and the individual valuations for each of the companies have been arrived at using appropriate valuation techniques.

A detailed explanation of the valuation techniques used for Level 3 financial instruments is given in note 2 to these financial statements.

The table below summarises the fair value measurements.

Valuation technique	Level	Fair value as at 31 March 2016 £'000
Listed investments	1	184
Price of recent funding round	3	25,210
Cost	3	10,808
Enterprise value	3	1,916
Price of recent funding round/cost adjusted for impairment	3	25
		38,143

The price of recent funding round or cost of investment provide observable inputs into the valuation of an individual investment. However, subsequent to the funding round or initial investment, the Directors are required to reassess the carrying value of investments at each year end, including assessment of any impairment indicators, which result in unobservable inputs into the valuation methodology. 1 direct investment is valued at an enterprise value, based on a multiple of revenues, given its stage of development and profitability.

Note 2 to these financial statements provides further information on the Group's valuation methodology.

27. Related party transactions

Transactions with Directors

The Group considers all members of the Board to be key management and their remuneration is disclosed in the Remuneration Report on page 56. Directors' shareholdings in the Group are disclosed on page 56 of the Remuneration Report.

The Group leases its premises from Forward Midland LLP, of which Ray Chamberlain, a Non-executive Director of Mercia Technologies PLC, is a member. During the year ended 31 March 2016, and under the terms of a lease agreement which commenced on 18 December 2014 and terminates on 17 December 2024, rent and service charges amounting to £186,000 were invoiced to and paid in full by the Group. The rent charged was determined by an independent market rent valuation of the property, undertaken in October 2014. Rent and service charges are invoiced quarterly in advance. As at 31 March 2016, prepaid rent and service charges amounted to £43,000. Also during the year the Group received secretarial and administrative support services from Forward Venture Management Limited, a company of which Ray Chamberlain is a director. The amount charged in the year to 31 March 2016 was £13,000 plus VAT, which was outstanding at the year end.

Company balance sheet

As at 31 March 2016

	Note	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Fixed assets			
Tangible assets	31	**107**	21
Investments in subsidiary undertakings	32	**22,799**	11,846
		22,906	11,867
Current assets			
Debtors due within one year	33	**322**	361
Debtors due after one year	33	**28,500**	13,000
Short-term investments		**10,000**	30,000
Cash at bank and in hand		**15,569**	22,079
		54,391	65,440
Creditors: Amounts falling due within one year	34	**(567)**	(386)
Net current assets		**53,824**	65,054
Net assets		**76,730**	76,921
Capital and reserves			
Called-up share capital	35	**2**	2
Share premium account	35	**9,494**	8,825
Other distributable reserve	36	**70,000**	70,000
Profit and loss account		**(3,040)**	(1,950)
Share-based payments reserve		**274**	44
Shareholders' funds		**76,730**	76,921

The notes on pages 82 to 85 are an integral part of these financial statements.

The Company financial statements of Mercia Technologies PLC, registered number 09223445, on pages 80 to 85 were approved by the Board of Directors and authorised for issue on 29 June 2016. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March 2016

	Called-up share capital £'000 (note 35)	Share premium £'000 (note 35)	Other distributable reserve £'000 (note 36)	Profit and loss account £'000	Share-based payments reserve £'000	Total shareholders' funds £'000
As at 17 December 2014	–	–	–	–	–	–
Total comprehensive loss for the period	–	–	–	(1,950)	–	(1,950)
Issue of share capital	2	81,595	–	–	–	81,597
Costs of share capital issued	–	(2,770)	–	–	–	(2,770)
Share premium reduction	–	(70,000)	70,000	–	–	–
Share-based payments charge	–	–	–	–	44	44
As at 31 March 2015	2	8,825	70,000	(1,950)	44	76,921
Total comprehensive loss for the year	–	–	–	(1,090)	–	(1,090)
Issue of share capital	–	691	–	–	–	691
Costs of share capital issued	–	(22)	–	–	–	(22)
Share-based payments charge	–	–	–	–	230	230
As at 31 March 2016	**2**	**9,494**	**70,000**	**(3,040)**	**274**	**76,730**

28. Accounting policies

Basis of preparation

The financial statements of Mercia Technologies PLC ('the Company') have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 ('the Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations.

The financial statements have been prepared on the going concern basis and under the historical cost convention. A summary of the most important Company accounting policies, which have been consistently applied except where noted, is set out below.

Investments in subsidiary undertakings

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

Tangible fixed assets

Tangible assets 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:

Furniture, fixtures and office equipment	33%
Leasehold improvements	over the remaining life of the lease

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.

Share-based payments

Equity-settled share-based payments to Executive Directors and certain employees of the Company, whereby recipients render services in exchange for shares or rights over shares, are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company reviews its estimate. The impact of any revision of original estimates is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Cash, cash equivalents and short-term liquidity investments

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of less than 3 months. Short-term liquid investments with a maturity of over 3 months but less than 12 months are included in a separate category, 'short-term liquidity investments'.

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 reserves, in which case the current and deferred tax are also recognised in other comprehensive income or directly in reserves 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 periods 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 and is accounted for 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 and associates, and interests in joint ventures, 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 and interests 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.

29. Summary of disclosure exemptions adopted

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7 'Financial Instruments: Disclosures';
- IAS 7 'Statement of Cash Flows';
- the requirement in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between 2 or more members of a group; and
- the following paragraphs of IAS 1 'Presentation of Financial Statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 111 (cash flow statement information); and
  - 134–136 (capital management disclosures).

30. Results for the Company

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a statement of comprehensive income or a cash flow statement for the Company.

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

31. Tangible assets

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 17 December 2014	–	–	–	–
Additions	–	–	23	23
As at 31 March 2015	–	–	23	23
Additions	36	32	33	101
As at 31 March 2016	**36**	**32**	**56**	**124**
Accumulated depreciation				
As at 17 December 2014	–	–	–	–
Charge for the period	–	–	2	2
As at 31 March 2015	–	–	2	2
Charge for the year	1	3	11	15
As at 31 March 2016	**1**	**3**	**13**	**17**
Net book value				
As at 31 March 2015	–	–	21	21
As at 31 March 2016	**35**	**29**	**43**	**107**

32. Investments in subsidiary undertakings

	£'000
Cost	
As at 1 April 2015	11,846
Additions	10,953
As at 31 March 2016	**22,799**
Carrying amount	
As at 31 March 2016	**22,799**

32. Investments in subsidiary undertakings continued

Additions of £10,953,000 were purchased through the issue of shares and cash and relate to the acquisition of Enterprise Ventures.

Details of the Company's subsidiary undertakings as at 31 March 2016 are as follows:

Name	Place of incorporation and operation	Proportion of Ordinary shares owned	Nature of business
Mercia Investments Limited	England	100%	Investment company
Mercia Fund Management Limited[1]	England	100%	Fund management company
Enterprise Ventures Group Limited	England	100%	Investment fund management company
Mercia Fund 1 General Partner Limited	England	98%	Investment fund general partner
Mercia (General Partner) Limited	England	100%	General partner
Mercia Investment Plan LP[2]	England	–	Limited partner
Mercia Fund 2 General Partner Limited	England	100%	Dormant
Lothian Shelf (582) Limited	Scotland	100%	Dormant
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 Digital Nominees Limited	England	100%	Dormant
Mercia Investment Management Limited	England	100%	Dormant
Mercia Business Services Limited	England	100%	Dormant

1 The Company owns 100% of Mercia Fund Management Limited's Ordinary shares and 56% of its Preference shares. It has a 100% controlling interest in the subsidiary undertaking.
2 The Company owns 90% of the capital invested in Mercia Investment Plan LP.

The Directors believe that the carrying values of the subsidiary undertakings are supported by their underlying net assets.

33. Debtors

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**11**	9
Other debtors	**133**	216
Prepayments and accrued income	**178**	136
	322	361
Amounts falling due after one year:		
Amounts due from subsidiary undertakings	**28,500**	13,000
	28,500	13,000

Amounts due from subsidiary undertakings are in respect of unsecured, interest bearing loans. Interest is charged on the principal sum of the loans typically at a rate of 4% and is paid half yearly. The loans have no formal repayment dates but the Directors do not anticipate the loans will be recalled within a year, nor for the foreseeable future.

34. Creditors – amounts falling due within one year

	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Trade creditors	**218**	18
Amounts owed to group undertakings	**90**	91
Other creditors	**–**	3
Accruals and deferred income	**259**	274
	567	386

35. Share capital and share premium account

The movements in share capital and the share premium account are disclosed in notes 21 and 22 to the consolidated financial statements.

36. Other distributable reserve

The movements in other distributable reserve are disclosed in note 23 to the consolidated financial statements.

37. Directors' emoluments and employee information

The average number of persons (including Executive and Non-executive Directors) employed by the Company during the year were:

	Year ended 31 March 2016 Number	Period ended 31 March 2015 Number
Central functions	**8**	7
	8	7

Central functions comprise senior management (including Non-executive Directors), finance, health and safety, human resources and administration.

The aggregate employee benefit expense (including Directors) was:

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Wages and salaries	**699**	453
Social security costs	**75**	293
Other pension costs (note 38)	**45**	14
	819	760

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 54 to 56 of the Annual Report.

38. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2016 was £45,000. As at 31 March 2016, no contribution payments were outstanding.

39. Operating lease commitments

At the year end, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	As at 31 March 2016 Land and buildings £'000	As at 31 March 2015 Land and buildings £'000
Within one year	**186**	186
In the second to fifth years inclusive	**132**	319
	318	505

Lease payments represent amounts payable by the Company for office premises. The lease term is 10 years with a break clause after 3 years.

40. Related parties

The Company has taken advantage of the exemption available to companies under FRS 101 not to disclose transactions and balances between members of the same group. Note 27 of the consolidated financial statements details the Group's related party transactions.

Directors, secretary and advisers

Directors

Susan Jane Searle	(Non-executive Chair)
Dr Mark Andrew Payton	(Chief Executive Officer)
Martin James Glanfield	(Chief Financial Officer)
Matthew Sidney Mead	(Chief Investment Officer)
Jonathan Brett Diggines	(Executive Director, Funds)
Raymond Kenneth Chamberlain	(Non-executive Director)
Ian Roland Metcalfe	(Non-executive Director)
Martin James Lamb	(Non-executive Director)

Company Secretary
Martin James Glanfield

Company website
www.merciatechnologies.com

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

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
Four Brindleyplace
Birmingham B1 2HZ

Principal bankers
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham B3 2WN

Lloyds Bank plc
125 Colmore Row
Birmingham B3 3SD

Company registration number
09223445

Solicitors
Gowling WLG (UK) LLP
4 More London Riverside
London SE1 2AU

Mills & Reeve LLP
Botanic House
100 Hills Road
Cambridge CB2 1PH

Nominated adviser and broker
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Company registrar
SLC Registrars
42–50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

Public relations adviser
Buchanan Communications Ltd
107 Cheapside
London EC2V 6DN

Notice of annual general meeting

Mercia Technologies PLC
(Incorporated and registered in England and Wales with registered number 09223445)

Notice is hereby given that the Annual General Meeting ("AGM") of Mercia Technologies PLC (the 'Company') will be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA on Monday 19 September 2016 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed in the case of resolutions 1 to 7 as ordinary resolutions and resolution 8 as a special resolution):

Ordinary business

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts of the Company for the financial year ended 31 March 2016 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2016.
3. That Jonathan Diggines, who retires as a Director in accordance with Article 89.2 of the Articles of Association (the 'Articles') and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
4. That Martin Glanfield, who retires as a Director in accordance with Article 89.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
5. That Martin Lamb, who retires as a Director in accordance with Article 89.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
6. To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next AGM of the Company at which the Company's accounts are laid and to authorise the Directors to determine the amount of the auditor's remuneration.

Special business

ORDINARY RESOLUTION

7. That the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate maximum nominal amount of £213.64 provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2017 save that the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the expiry of such authority and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired. The authority granted by this resolution shall replace all existing authorities to allot any shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company previously granted to the Directors pursuant to section 551 of the Act.

SPECIAL RESOLUTION

8. That, subject to the passing of resolution 7, the Directors be and are hereby empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash either pursuant to the authority conferred by resolution 7 above or by way of sale of treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment and/or sale of equity securities up to an aggregate nominal amount of £213.64 provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2017 save that the Company shall be entitled to make, prior to the expiry of such authority, offers or arrangements which would or might require equity securities to be allotted and/or sold after such expiry, and the Directors may allot and/or sell equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired. The authority granted by this resolution shall replace all existing authorities previously granted to the Directors to allot equity securities for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply.

By order of the Board of Directors

Martin Glanfield
Company Secretary
29 July 2016

Registered Office: Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA

Mercia Technologies PLC
(Incorporated and registered in England and Wales with registered number 09223445)

NOTES:

Proxies

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend, speak and vote on the same occasion provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each form together with the number of shares that such proxy is appointed in respect of (which, in aggregate, should not exceed the number of shares held by the member). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. A form of proxy is enclosed with this notice. Forms of proxy may also be obtained on request from the Company's registered office. In order to be valid any proxy form appointing a proxy must be returned duly completed no later than 10.00 a.m. on 15 September 2016 (or, if the AGM is adjourned, no later than 48 hours before the time fixed for the adjourned meeting), in hard copy form by post, by courier, or by hand to the Company's Registrar, SLC Registrars, 42–50 Hersham Road, Walton-on-Thames, Surrey KT12 1RZ, United Kingdom.
   Submission of a proxy appointment will not preclude a member from attending and voting at the AGM should they wish to do so. To direct your proxy on how to vote on the resolutions, mark the appropriate box on your proxy form with an 'X'. To abstain from voting on a resolution, select the relevant 'Vote withheld' box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
3. Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be returned to the office of the Company's Registrar with your proxy form.

Thresholds and entitlement to vote

4. To be passed, ordinary resolutions require a majority in favour of the votes cast in person or by proxy at the AGM and special resolutions require a majority of not less than 75% of members who vote in person or by proxy at the AGM. On a show of hands every shareholder who is present in person (or being a company is present by a representative not himself a shareholder) and who is allowed to vote at a general meeting shall have one vote. Upon a poll every member holding Ordinary shares who is present in person or by proxy (or being a company is represented) shall have one vote for every Ordinary share of which he is the registered holder.
5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those members registered in the Register of Members of the Company at 6.00 p.m. on 15 September 2016 (or if the AGM is adjourned, members entered on the Register of Members of the Company no later than 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend, speak and vote at the AGM in respect of the number of Ordinary shares registered in his or her name at that time. Changes to entries on the Register of Members of the Company after 6.00 p.m. on 15 September 2016 shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
7. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
8. As at 28 July 2016, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 213,645,711 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 28 July 2016 is 213,645,711.

Miscellaneous

9. Copies of the Directors' service contracts and letters of appointment are available for inspection at the registered office of the Company during normal business hours from 28 July 2016 and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.
10. Members who have general queries about the AGM should write to the Company Secretary at the registered office of the Company: Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA United Kingdom.

Explanation of resolutions

1. ***Resolution 1*** – The Directors are required to present the accounts, Directors' Report and Auditor's Report to the meeting. These are contained in the Company's Annual Report and Accounts 2016.
2. ***Resolution 2*** – Shareholders are required to approve the Directors' Remuneration Report for the financial year.
3. ***Resolution 3 – Re-election of a Director*** – Pursuant to Article 89.2 of the Articles, any new Director appointed by the Board since the last AGM is required to retire and submit themselves for re-election.
4. ***Resolutions 4 and 5 – retirement of Directors by rotation*** – At each AGM, those Directors who are required to retire by rotation pursuant to the Articles shall retire and submit themselves for re-election by shareholders. Pursuant to Article 89.1, at each AGM one-third of the Directors are required to retire from office by rotation.
5. ***Resolution 6 – auditor re-appointment and remuneration*** – At each meeting at which the Company's accounts are presented to its shareholders, the Company is required to appoint an auditor to serve until the next such meeting and seek shareholder consent for the Directors to set the remuneration of the auditor.
6. ***Resolution 7 – general authority to allot*** – This resolution, to be proposed as an ordinary resolution, relates to the grant to the Directors of an authority to allot unissued Ordinary shares until the earlier of the conclusion of the AGM to be held in 2017 and 30 September 2017 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time. This authority is limited to a maximum nominal amount of £213.64 representing 10% of the issued Ordinary share capital of the Company as at 28 July 2016 (the latest practicable date prior to the publication of this document).
7. ***Resolution 8– statutory pre-emption rights*** – The Act requires that if the Directors decide to allot unissued shares in the Company or sell them out of treasury for cash, the shares proposed to be issued or sold must be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company, the Directors may require flexibility to allot and/or sell shares out of treasury for cash without regard to the provisions of section 561(1) of the Act. Therefore this resolution, to be proposed as a special resolution, seeks authority to enable the Directors to allot and/or sell equity securities out of treasury up to a maximum nominal amount of £213.64 representing 10% of the issued Ordinary share capital of the Company as at 28 July 2016 (the latest practicable date prior to the publication of this document). This authority expires on the earlier of the conclusion of the AGM to be held in 2017 and 30 September 2017 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.

Notes

Designed and produced by Emperor
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mercia technologies