Emerging Stars

Disruptive innovation

Global markets

Ambitious

NAV growth

Scale

Complete Capital

REALISING VALUE

mercia technologies

Mercia Technologies PLC

Annual Report and Accounts 2018

Mercia is a national investment group focused on the funding and scaling of innovative businesses with high growth potential from the UK regions.

From first investment...

...to scale

...to cash exits & IPOs

The Mercia Model brings together industry specialists and investment expertise to create and over time realise value for shareholders and fund investors.

See page
9
for our strategy

HIGHLIGHTS

Assets under management ("AuM")*

£500.0m

Revenue

£10.2m

Funds under management ("FuM")*

£400.0m

Net expenses

£0.4m

Net assets

£123.5m

Unrestricted cash

£49.4m

Direct investment portfolio

£66.1m

Cash realisation proceeds

£10.5m

* Approximate

Portfolio highlights

- £21.1million net invested in 17 portfolio companies during the year, including three new Emerging Stars
- Direct investment portfolio value increased to £66.1million (2017: £52.0million)
- Science Warehouse sold to Advanced Business Software and Solutions Limited generating cash proceeds of £10.5million and a realised gain of £0.6million for Mercia
- Growing pipeline of future potential Emerging Stars in the expanded funds under management

Operational highlights

- Assets under management have grown to c.£500.0million, comprising c.£400.0million of funds under management, direct assets of £66.1million and unrestricted cash of £49.4million
- Julian Viggars promoted to Chief Investment Officer, bringing a demonstrable exit track record of delivering cash realisations and IPOs
- 19 university partnerships, including a new partnership with the University of Edinburgh
- 9 offices covering the Midlands, the North of England and Scotland

CONTENTS

REALISING VALUE

OUR VISION

Value realisation through the proactive local delivery of the right capital to the right companies at the right time.

Mercia's vision is to become the leading national player in the funding and scaling of high-growth businesses with an emphasis on the Midlands, the North of England and Scotland. Through its managed funds and its own balance sheet Mercia is able to provide the 'Complete Capital Solution,' offering a range of debt, venture and growth capital to UK SMEs. The Group believes there is a significant opportunity in the UK regions to scale businesses through the efficient and targeted provision of capital and support, creating substantial value for shareholders and fund investors alike.

See page 20 for more information from our Chief Investment Officer

Cash realisation proceeds

£10.5m

OUR SECTORS

Complete Capital Solution

Mercia focuses on some of the highest growth sectors in the UK, leveraging deep expertise across a number of areas.

Software & the Internet

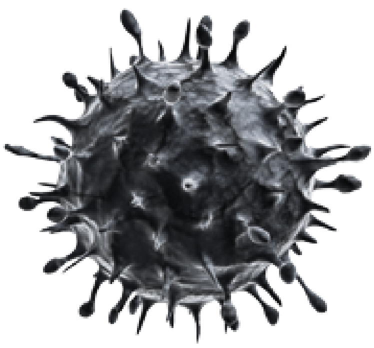
Subsectors of note are artificial intelligence, cybersecurity, software as a service, analytical tools and adtech.

See page 22 for more information

Digital & Digital Entertainment

Mercia has a specialist interest in virtual reality, augmented reality, gaming entertainment and serious games.

See page 26 for more information



Electronics, Materials, Manufacturing/Engineering

Mercia is focused on the next generation of disruptive proprietary technologies, often university-derived, in energy and communications, together with high-value electronics and manufacturing applications.

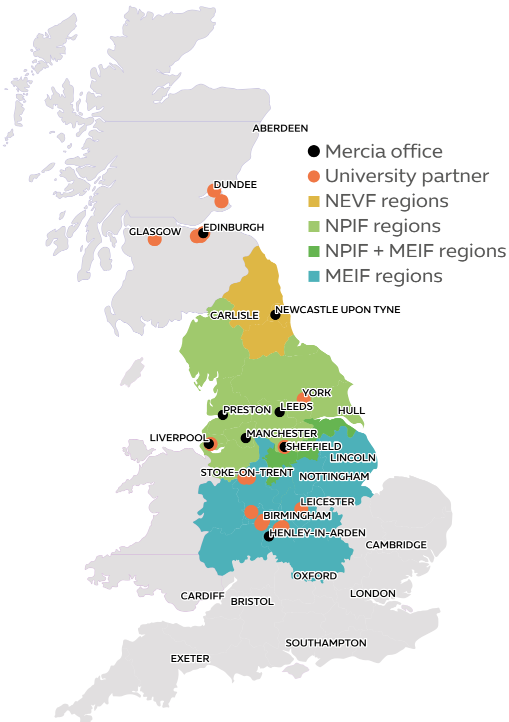
See page 30 for more information

Life Sciences & Biosciences

Key areas of interest include diagnostics, digital health, medical devices and synthetic biology.

See page 34 for more information

REGIONAL FOCUS



Local offices with global aspirations

Mercia has a strong footprint across the UK regions through its nine offices, c.£400.0million in funds under management ("FuM"), local networks and 19 university partnerships.

Mercia focuses its investment activity in the UK regions where it is able to source compelling investment opportunities driven by a historic under supply of capital. To date it has managed to support and profitably exit from businesses such as Allinea Software in the Midlands and from Science Warehouse in the North of England.

Total offices

9

UNIVERSITY PARTNERS

Abertay University
Aston University
University of Birmingham
Birmingham City University
Coventry University
The University of Edinburgh
Edinburgh Napier University
Heriot Watt University
Keele University
University of Leicester
University of Liverpool
Liverpool John Moores University
University of St Andrews
Sheffield Hallam University
Staffordshire University
University of Strathclyde Glasgow
The University of Warwick
University of Wolverhampton
University of York

Academic excellence

Mercia's 19 university partnerships, the latest being with the University of Edinburgh, provide it with the largest number of university partnerships compared to its peer group and access to an expanding portfolio of businesses addressing global markets, within its managed funds.

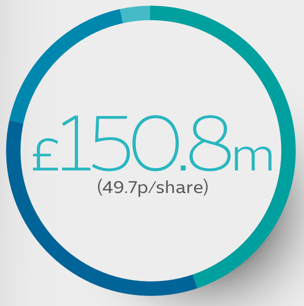
Visit merciatech.co.uk for more information

MERCIA'S VALUE

More than the sum of its parts

As at 31 March 2018, Mercia's balance sheet comprised its direct investment portfolio valued at £66.1million, cash of £52.9million and goodwill, intangible assets and working capital combined amounting to £4.5million.

Its profitable fund management operations achieved revenues of £9.1million for the year ended 31 March 2018. Against listed fund manager comparators valued at two to four times revenue, this could place a value of £27.3million on this element of the Group alone. With no premium ascribed to the future potential of the direct investments, the value ascribed per share could be represented as:



Direct investments £66.1m (21.7p/share)	44.9%
Cash £52.9m (17.5p/share)	33.5%
Mercia Fund Managers £27.3m (9.0p/share)	18.5%
Goodwill, intangible assets & working capital £4.5m (1.5p/share)	3.1%
	100.0%

ANOTHER YEAR OF POSITIVE PROGRESS

Susan Searle
Non-executive Chair

Portfolio value

£66.1m

2017: £52.0m

Profit for the year

£1.7m

2017: £1.0m

The year ended 31 March 2018 has seen further positive development of Mercia's business model. This has involved building and ensuring that we have the right team, whilst developing and adding value to the balance sheet investments and the investee companies held in the third-party funds under management, which is Mercia Technologies' growing deal flow pipeline.

Progress against plan

The progress made by the balance sheet direct investments has yet to deliver the fair value uplifts that the Board would like to see and, in doing so, increase the Group's net asset value, but that reflects the time it takes to build these businesses and reach material points of value inflexion. However, the Mercia team is doing the right things with these young companies in helping them to build uncompromisingly high-quality boards and management teams, focusing on ensuring that the companies gain early validation with industry partners, challenging and participating in the development of the strategy and targeting the right co-investors, to ensure that the companies can be funded and supported to deliver incremental shareholder returns over time. The Board recently visited Impression Technologies, Oxford Genetics and EyeTech t/a Eyoto, touring the sites and receiving detailed updates on progress. All are undoubtedly well managed with clear plans to commercialise their technologies and all have real ambition to scale. Further investee company visits will take place throughout the current year.

During the year Science Warehouse was sold to Advanced Business Software and Solutions Limited for a total cash consideration of £16.9million. The transaction generated cash proceeds of £10.5million for Mercia and a realised gain of £0.6million. When Mercia listed in December 2014 we had hoped that Science Warehouse would deliver a greater return. However, once e-marketplace comparator multiples softened and we recognised that the growth and opportunity for the business was not going to deliver the exit multiple that we expect from the Mercia portfolio, we took the opportunity to exit the business for a reasonable cash return. Taking this kind of decision whilst still engineering a positive outcome enables the Group to focus its investment expertise on those Emerging Stars that we think will deliver much greater multiples of return. This has been Mercia's third cash exit and all three have been above their carrying value. This demonstrates that the Executive Team can deliver cash value back to the balance sheet. Mercia believes that cash returns do matter to our shareholders.

Three new Emerging Stars were added to the direct investment portfolio this year and the Board was particularly impressed with the quality of the companies' management teams, their commercial opportunities and the clarity of focus in respect of the future milestones that need to be achieved. There is clear evidence that Mercia's growing investment teams are continuing to raise the bar in terms of the businesses being invested in and the support being given in helping them to scale. All three businesses are very different but are each in disruptive markets, namely robotic website attack prevention, ocular health management and digital video-based real-time consumer research.

Building the scale of the business and the right model

During the year we added a further c.£100.0million to the third-party managed funds. Mercia closed the year with c.£400.0million funds under management of which c.£230.0million is available cash to invest in building a high-quality pipeline for the future. This is the pipeline that the Mercia balance sheet will be able to harvest for many years to come.

On the balance sheet Mercia ended the year with unrestricted cash of just under £50.0million and direct assets valued at £66.1million. The direct assets grew in value by 27.0% during the year. This was a good result overall given the negative contribution to portfolio performance by both Concepta, as it experienced developmental and commercial headwinds which impacted its share price, and Edge Case Games, where the business has currently fallen materially behind plan. We intend however to continue supporting and working closely with both businesses to improve their outlook. Conversely, Oxford Genetics was a significant positive contributor to the portfolio's overall increase in fair value. This business is at the forefront of its field and successfully completed a £7.5million funding round during the year, which included Invesco Asset Management.

From a cash burn perspective, Mercia grew its revenue to £10.2million (2017: £6.7million) and net expenses reduced to £0.4million (2017: £2.5million). Thus, the business model continues to be optimised, with shareholders' funds being predominantly put to work in the Group's direct investment portfolio, rather than net asset value being eroded by having to fund substantial operating costs.

Group Board

As the Group develops the Board too needs to evolve. We were sorry to lose Martin Lamb this year as he stepped down from Mercia's Board to run Rotork plc as full time interim CEO. Martin had been instrumental in helping us think through the strategy and development of the business model. We set out to replace him with someone with a strong financial and venture background plus first-hand experience of successfully scaling businesses and delivering exits. We were therefore pleased to appoint Dr Jonathan Pell to the role. Jonathan is very familiar with this journey and has a wealth of experience in our sector. Post year end we were equally pleased to appoint Caroline Plumb OBE as an additional Non-executive Director. Caroline is an entrepreneur who has successfully built Freshminds, a business that focuses on innovation, strategy and development of new technologies working with corporate partners, as well as utilising the talents of young graduates. She is now on her second venture as a CEO. Caroline has a diverse network in the technology sector and currently serves as one of the UK government's c.50 Business Ambassadors, representing the UK's Professional and Business Services sectors. She will bring a new perspective, first-hand experience as an entrepreneur and considerable technology strategy experience to Mercia's Board.

At Executive Director level we saw both Jonathan Diggines and Matt Mead step down. Jonathan joined the Board with the acquisition of Enterprise Ventures and helped to ensure that the business was fully integrated. His valued experience remains within the Group as he continues to chair a number of the growth, venture and debt fund investment committees. Matt Mead helped take Mercia through its first investment cycle and his experience also remains available to the Group as a venture partner. I would like to thank them both for their positive contribution. Julian Viggars was the obvious choice to step up and take on the Chief Investment Officer role given his huge amount of experience within the portfolio, including sitting on the boards of a number of portfolio companies. He has a demonstrable exit track record of delivering returns, for example with Blue Prism Group plc. Mercia is now led by a team of four; the three Executive Directors plus our Head of Life Sciences & Biosciences Peter Dines, who has also assumed the role of Chief Operating Officer. We believe that this is the right team to deliver the next phase of Mercia's growth.

People and culture

During the year the Executive Directors led the development of a 'One Mercia' culture. The Board has seen the enthusiasm, focus and alignment that is being developed across Mercia's now 80-strong employee base. The range of investment and business building skills is impressive and the professionalism of the organisation stands out in all that it does.

Outlook

We look forward to the current year. The Board is focused on the top direct investments and is looking to see the Mercia team make a real difference to the pace and scale at which these are developed. The third-party managed funds activity is well established and at an appropriate scale – we believe it will continue to develop a high-quality pipeline and future Emerging Stars for the Group.

Mercia's presence in the UK regions is now second to none. We value our relationships with the Group's 19 partner universities very highly and will continue to fund and develop university spinouts via our third-party funds, selectively backing and scaling a small number with Mercia's balance sheet capital. We were particularly pleased to welcome the University of Edinburgh as our 19th partner during the year. Complementing these are the entrepreneur-led businesses also sourced largely from the regions.

Mercia's current net asset value ("NAV") per share, excluding its profitable fund management business and other drivers of future value, is 40.7 pence. As the direct investment portfolio makes progress, the Board expects to see that value reflected in increasing NAV per share.

I would like to thank our shareholders for their continuing support and all the team at Mercia for their tireless hard work on the journey that we are on, of building and when appropriate, exiting valuable businesses in order to maximise shareholder returns.

Susan Searle
Non-executive Chair
29 June 2018

UNIQUE STRENGTHS – BACKING THE FUTURE TODAY

THE TEAM

One of the most striking things about Mercia is its people. Both the calibre of its investment teams and the people who run its portfolio companies. The investment teams benefit from extensive personal networks which are essential for the sourcing and development of deal flow, deal structuring and market due diligence. The management teams and NEDs within our portfolio companies are experts within their own sectors, including the former vice president and general manager of BOSE® Corporation, Gary Waters, now a non-executive director at Warwick Audio Technologies, and Ken Cunningham chair of Medherant, who previously was chief executive officer of Skyepharma plc.

See page 46 for more information

TRACK RECORD

The cumulative exit track record and the commercial acumen to select and scale valuable investments ensures that Mercia is a respected investment partner. Whilst Mercia has only been listed on AIM for a little over three years, the core of its Investment Team have worked together over many decades and have enjoyed significant success, notably our Chief Investment Officer, Julian Viggars, the investment director for Blue Prism Group plc, arguably one of the most dynamic and exciting robotic process automation businesses in the world.

A NEW INVESTMENT MODEL

Our investment model is built to embrace the fact that the average age of a trade sale for a high-growth business in the UK is 13.5 years, for an IPO it is 10 years and that typically three in four venture-backed businesses[1] fail to provide a profitable return of capital. Furthermore, the transition from seed to growth (or 'scale up') occurs on average six years from initial seed investment and in less than 6% of a seed investment portfolio. Mercia's fund management business, Mercia Fund Managers, nurtures young businesses in its funds typically for six months to seven years, before selectively bringing across its Emerging Stars. During the financial year, three (or circa 2% of the managed funds venture portfolio) came across to the balance sheet; Voxpopme (circa six months in the funds), Aston EyeTech t/a Eyoto (circa three years in the funds) and Intechnica (circa four years in the funds).

From day one, founding entrepreneurs, typically resource-light, are looking at new ways to disrupt established norms, looking past near term challenges such as Brexit and into what the world could look like in five to 10 years' time. Mercia's model embraces this ambitious long-term approach using managed funds to build out the entrepreneurial teams and business models first, followed by balance sheet capital to selectively scale a limited number of Emerging Stars. This ensures that we provide a seven to 15 year perspective across the Group with the right form and amount of capital at the right time, reflective of the risk profile of the investee company and its stage of development. Mercia's model is predicated on the observation that if one backs resource-light opportunities then the investor must complement this lack of resource with industry-leading expertise and capability.

Mercia Fund Managers' profitable operation also contributes by largely mitigating the cost of the Group's balance sheet investment activities. This ensures that almost all of the Group's cash is put to work in its direct investment portfolio, rather than being consumed by the Group's cost base.

See page 12 for more information

ACCESS TO DEAL FLOW

Mercia is in the privileged position of receiving a high volume of investment opportunities each year and this enables the Investment Teams to be highly selective in what they choose to back. Last year the teams received 1,721 enquiries for equity investment and invested in 4.1% of those from our FuM to grow our managed funds venture portfolio to 174 companies, of which three (1.7%) became new Emerging Stars on the balance sheet. In other words, less than 0.2% of enquiries end up as balance sheet investments, which demonstrates the highly vigorous process our portfolio companies go through before they are backed with our shareholders' capital.

A DIVERSE PORTFOLIO

The UK boasts a diverse technology base and so too does Mercia's investment portfolio. Our four sectors have been carefully selected and we monitor the portfolio's balance to ensure that no one industry sector or company is overweight. This monitoring helps to reduce risk as we ensure that the portfolio remains balanced.

See page 20 for more information

1. hbs.edu/news/Pages/item.aspx?num=487

OUR PROGRESS SINCE IPO

April 2018
Mercia Fund Managers is awarded £27.0million North East Venture Fund by North East Fund Limited

March 2018
Science Warehouse, the second largest direct investment, is sold for £16.9million in total

December 2017
Mercia Fund Managers raises £40.5million Growth Fund

January 2018
c.£12.0million is raised in EIS capital for this financial period

February 2018
Mercia Fund Managers is awarded £23.0million Proof of Concept Midlands Engine Investment Fund by the British Business Bank

November 2017
19th university partnership is signed with the University of Edinburgh

February 2017
Mercia Fund Managers is awarded £108.5million of Northern Powerhouse Investment Funds by the British Business Bank to invest via both venture and debt mandates

January 2017
Mercia Technologies placing raises £40.0million

December 2014
Mercia Technologies floats on AIM raising £70.0million

March 2016
Mercia acquires Enterprise Ventures Group Limited ('Enterprise Ventures') expanding the Group's regional presence and its investment capabilities significantly

December 2016
Allinea Software is sold to ARM Limited for £18.1million in total

OPPORTUNITIES TO BUILD

TARGET SECTORS
Direct portfolio value by sector

Software & the Internet

- Artificial intelligence
- Cybersecurity
- Software as a service
- Analytical tools
- Adtech

£11.0m

Digital & Digital Entertainment

- Virtual reality
- Augmented reality
- Gaming content
- Serious games

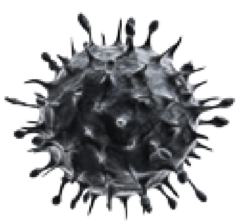
£18.7m

Electronics, Materials, Manufacturing/Engineering

- Energy and communications
- High-value electronics
- Manufacturing applications

£16.2m

Life Sciences & Biosciences



- Diagnostics
- Digital health
- Medical devices
- Synthetic biology

£19.9m

Mercia is founded on three key market observations. Firstly, the UK has some of the most talented and entrepreneurial scientists and engineers in the world. Secondly, with the right capital and expertise behind them, it is possible to build world-changing companies from the intellectual property that these entrepreneurs create. Thirdly, and crucially, these people are often not located in London and the South East. Whilst the Group's track record is starting to stand on its own, we are encouraged by market data which supports our views.

When looking for scientific and engineering excellence, it is interesting to note that despite the regular media coverage of Oxford, Cambridge and London, 13 of the top 20 universities in the UK are found outside of London and the South East[1]. When focusing specifically on science and engineering subjects, six out of the top 10 lie within the UK regions[2]. Many of these are participants in Mercia's university partnership network, centres which are characterised by world-leading science and entrepreneurial cultures that foster support for spinout companies.

Alongside the high level of talent found in the regions is the important role of institutions such as the British Business Bank. Mercia is proud to have been appointed by the British Business Bank to manage funds in both the Northern Powerhouse Investment Fund and Midlands Engine Investment Fund regions, as well as the North East Fund to manage the North East Venture Fund.

Alongside the increased funds available, there has been the continued development of technology clusters around the UK. Manchester has risen to be a prominent technology cluster, with a digital economy that employs 1.6million people and contributes £97.0billion to the UK economy[3]. This clustering effect leads to a rise in talent in the ecosystem, making it a fertile ground for new companies to develop and scale. Similar effects are being seen in Nottingham (with the development of BioCity incubator hub) and Newcastle (which has recently announced plans to become a creative digital hub). These centres along with others in the regions continue to draw capital attracted by strong government support and ecosystems that retain talent, making them attractive places to build high-growth businesses.

The underlying proof of our investment thesis lies ultimately in successful exits that make significant returns for investors. Again, there are great examples from the UK regions of just that. From Skyscanner Ltd (founded in Edinburgh, sold for $1.4billion), to ClinPhone Group Ltd (a pharma-IT business founded in Nottingham, acquired for $482.0million), to Blue Prism Group plc (held in Mercia's managed funds portfolio currently valued at £1.1billion) there are exceptional businesses to be found across the UK regions.

1 topuniversities.com/university-rankings-articles/world-university-rankings/top-universities-uk-2018
2 british-business-bank.co.uk/regional-funds/
3 Tech Nation report 2017 - technation.techcityuk.com/download-the-report/

STRATEGY

A FOCUSED STRATEGY

Mercia is a little over three years into its seven-year strategic plan to create a sustainable evergreen national investment business focused on sourcing regional deal flow, nurtured through its FuM before Emerging Stars are selectively brought onto the balance sheet. The intent for both Mercia's FuM and balance sheet is the establishment of a diversified portfolio yielding a consistent flow of cash returns.

STRATEGIC PRIORITIES	PROGRESS IN 2017/18	PLANS FOR 2018/19
Portfolio breadth	Three new Emerging Stars were added in the period with the top 20 assets accounting for over 99% of the total portfolio value and material equity stakes of over 25% held in 12 of the top 15 assets. NAV per share was relatively static despite net assets increasing, driven in part by the issue of new shares to settle the deferred consideration for the Enterprise Ventures acquisition	A growing pipeline of potential Emerging Stars will result in an increased number of direct investments. As these investments mature, it is expected that syndicated rounds with third parties at higher valuations will occur which will in turn lead to increasing NAV per share
Minimise net expenses	Net expenses reduced from £2.5million to £0.4million, reflecting (a) growth in FuM, and (b) one-off performance fees from high-performing managed funds. This ensures preservation of cash for direct investment purposes	Careful cost control will continue to ensure cash is used predominantly for investment purposes
Leverage networks	Mercia has a wide access to deal flow through its nine offices, 80 staff and 19 university partnerships	Internal systems will maximise network value, building a deal flow ecosystem which is unmatched across the Midlands, the North of England and Scotland combined. Selective additional university and corporate partnerships will be evaluated
Realise value	Strong performance as measured by cash returns across venture, private equity and debt funds, combined with £10.5million from Mercia's third trade sale and largest cash return to date, Science Warehouse.	Continued focus on realising cash from fund and direct investments as Mercia seeks to build an evergreen hybrid investment model

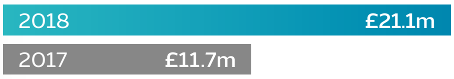
DELIVERING ON STRATEGY

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

How it was measured

Measured in terms of the net cash invested in direct investments

£21.1m



Performance

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

Growth in value of the Group's portfolio through fair value movements

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")

£2.8m

Performance

Reflects a year of continuing positive momentum in what is still a relatively young portfolio, albeit with some portfolio impairments

Number of companies invested in during the year

How it was measured

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

17

Performance

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

Unrestricted cash balances and short-term liquidity investments held by the Group at the year end

How it was measured

Measured in terms of cash, cash equivalents and short-term liquidity investments held by the Group, excluding funds held on behalf of third party EIS investors

£49.4m

Performance

The cash exit from Mercia's second largest direct investment supports Mercia's belief that the Group's portfolio has the ability to generate significant cash returns for shareholders over the medium term. We continue to see high quality direct investment opportunities through our fund management activities and the proceeds received will be reinvested into both our existing and future direct investment portfolio of Emerging Stars

Indicator	How it was measured	Performance
Third-party funds under management How it was measured Measured in terms of fund management contracts secured and under active management	£400.0m* 2018 £400.0m 2017 £336.5m * Approximate	During the year the first close of EV Growth Fund II took place and Mercia was awarded its third new fund management contract by the British Business Bank, the Midlands Engine Investment Fund
Investment realisation proceeds received How it was measured Measured in terms of the cash proceeds received on realised investments	£10.5m 2018 £10.5m 2017 £2.9m	One successful cash realisation was completed during the year, the third since Mercia's IPO in December 2014
Revenue How it was measured Measured in terms of all revenues derived from both fund management and direct investing activities	£10.2m 2018 £10.2m 2017 £6.7m	The Group's revenue increase was largely derived from the growing quantum of funds under management and the accelerating deployment of those funds, together with one-off revenues generated from both existing fund performance fees and new fund closing fees
Net expenses How it was measured Measured in terms of total revenue less all staff and administrative expenses	£0.4m 2018 £0.4m 2017 £2.5m	Mercia's 34.7% underlying growth in revenues has exceeded the 16.3% increase in its cost base
Net asset value per share How it was measured Measured in terms of the Group's consolidated balance sheet net assets divided by the number of shares in issue at the year end	40.7p 2018 40.7p 2017 40.4p	Notwithstanding the 2,707,475 new shares issued in respect of the Enterprise Ventures deferred consideration, net assets have increased by £2.1million

REALISING VALUE

Dr Mark Payton
Chief Executive Officer

Assets under management*

£500.0m

New funds cash to invest*

£230.0m

* Approximate

The growth of the Group to date has been considerable, notwithstanding the fact that this has yet to be fully recognised in terms of superior net asset value ("NAV") growth. Ahead of Mercia's admission to AIM in December 2014 it had approximately £22.0million in third-party funds under management ("FuM") and £9.0million in direct investments amounting to £31.0million of assets under management ("AuM").

Fast forward just over three years and it is pleasing to see that AuM have grown to c.£500.0million, comprising c.£400.0million of FuM, direct investments of £66.1million and unrestricted cash of £49.4million. Today, Mercia benefits from approximately £230.0million in new cash to invest over the next five years from its FuM and a strong balance sheet, to continue supporting both its existing direct investments whilst selectively expanding the direct investment portfolio with new Emerging Stars.

With the recent sale of Science Warehouse bringing £10.5million of cash back to the balance sheet, Mercia has already demonstrated full cash returns above carrying value from each of the three portfolio businesses exited so far. NAV per share at 40.7p excludes the value of Mercia's substantial and profitable fund management businesses, Mercia Fund Managers, which is an integral part of our hybrid investment model. Mercia Fund Managers serves two purposes; to nurture the next generation of Emerging Stars for the balance sheet and to contribute towards minimising the Group's net expenses (being total revenue less all staff and administrative expenses). Since April 2017 Mercia Fund Managers has secured over £100.0million in new FuM, adding to a similar figure secured in the previous financial year. Largely as a consequence of this increasing FuM, total revenue for the year to 31 March 2018 grew from £6.7million to £10.2million and net expenses decreased from £2.5million to £0.4million. In addition, three new Emerging Stars joined the balance sheet with the top 20 investments now accounting for over 99% of the portfolio value. The fund management business is therefore delivering on its two key value drivers.

We believe that the UK sets the global benchmark for innovation and discovery. Mercia mobilises capital located predominantly in the South of England and invests it selectively into the UK regions where there is limited competition due to poor supply of finance but a notable hotbed of scalable businesses with global aspirations. Mercia has established a meaningful presence in the Midlands, the North of England and Scotland and now has more than 80 employees located across nine offices in these regions, together with

19 university partnerships. The University of Edinburgh became our 19th partner during the financial year under review. Our university partnerships remain an important element of our business model, accounting for approximately 25% of our FuM investment activity by number of deals. Our partner universities have combined research income comparable to that of the Universities of Oxford, Cambridge and Imperial College. The funds managed by Mercia Fund Managers comprise not only tax efficient Enterprise Investment Scheme ("EIS") and venture funds but also private equity and debt funds, enabling Mercia to genuinely offer a Complete Capital Solution to many of the most promising businesses in the UK.

Early signs of delivery

During the financial year under review Mercia invested c.£52.4million across the Group, of which £21.1million was from the balance sheet into direct investments and the remaining c.£31.3million from Mercia's managed funds. Against the Group's total cash deployment of £52.4million, an additional c.£160.0million was raised by portfolio companies through syndicated investment. We anticipate that this level of third-party syndication will increase in the new financial year with a growing emphasis on our balance sheet investments, as they start to mature. We therefore anticipate that the Group will invest approximately £60.0million across both its funds and direct investment portfolios in 2018/19, predominantly driven by increased activity from our FuM. We are already seeing a materially expanded stable of future potential Emerging Stars and we expect this number to increase further during the next two years.

Mercia focuses on achieving cash exits in a three to seven-year period once a new Emerging Star is added to the balance sheet. To date we have realised three profitable cash returns from Allinea Software (2016), Abzena (2017) and Science Warehouse (2018). Mercia's FuM are also performing well with one of the Group's oldest venture funds, the RisingStars Growth Fund (2004 vintage year), proving to be a leading European venture fund based on cash returned (c.4x to date) and an internal rate of return of c.15%. This fund was a seed investor in Blue Prism Group plc, a business from the North of England, turning an investment from the fund of £0.9million into a £70.0million cash return to date, with the fund still owning approximately 2.5% of this successful AIM quoted technology company. As with the majority of Mercia's FuM, when the funds deliver cash returns to their fund investors, the Group may also benefit financially from performance fees and/or 'house' carried interest. Mercia has benefitted directly from two fund distributions during the year.

Mercia plays an active role in helping to build boards and management teams, business model optimisation, investment syndication and commercial engagement across both fund and balance sheet investments. We anticipate that this proactive stance of resource allocation will deliver strong fair value uplifts in the medium term as these portfolio companies mature. The following list is just a small selection of investee companies from Mercia's promising and growing direct investment portfolio, all of which have come through the Group's FuM:

nDreams – a leading European player for virtual reality content for gaming and experiences working with Sony, Oculus, Google, Starbreeze, OSVR, Dell, HTC and Microsoft

Oxford Genetics – has attracted Invesco Asset Management as a new shareholder as it looks to accelerate its position in the growing global synthetic biology market

Intechnica – a rapidly scaling retailer of an innovative cloud-based software as a service platform product, Traffic Defender, working with clients including Evans Cycles, Hobbs, Ted Baker and AO.com

Medherant – developing a proprietary patch technology focused on pain relief and central nervous system diseases, benefiting from third-party co-investment in the year and the development of its own prototype manufacturing facility

Impression Technologies – from its own production facility it produces large complex aluminium pressed units that are stronger and lighter than those of its peers, without the need for welding, for automotive marques such as Aston Martin

"

Mercia is far more than just the sum of its parts. It has built a significant platform throughout the UK regions capable of unearthing some of the most potentially valuable businesses of the future.

Funds under management*

£400.0m

Voxpopme – a new Emerging Star, this rapidly scaling disruptive video analytics business has clients including Microsoft, Visa and Tesco

As these direct investments demonstrate, we are seeing early signs of success and a breadth of portfolio with tremendous promise in the medium term. More detail on these and other investments can be found in the Chief Investment Officer's review. The true nature of risk capital and active portfolio management means that there are also inevitable setbacks along the way. Within our early-stage third-party venture funds, failure rates have historically run at 40-50% and we do not expect this to change. Although Mercia's model ensures that much of the greatest risk of failure is absorbed through the FuM, there have been a small number of downward fair value movements within our direct investment portfolio during the year. Concepta PLC's fall in its share price has resulted in a 'mark-to-market' downward fair value movement. The investment in Smart Antenna Technologies is now held at cost and Soccer Manager's valuation has been reduced by 25% to reflect slippage against its path to profitability. In the case of Edge Case Games, Mercia's eleventh largest holding by value, we have elected to fully provide against the equity element of our total investment (with the remaining investment value held as convertible loans) due to a marked slowdown in progress, largely as a result of protracted partnership discussions with a major games developer and aborted trade sale negotiations. Mercia is actively engaged in the restructuring of this business to refocus on delivering value from its lead gaming platform, Fractured Space, which has demonstrated early signs of positive customer engagement. The strategy that we have adopted for Edge Case Games demonstrates our active hands-on approach to portfolio management together with prudent adherence to our valuation policy.

Mercia's next chapter; *built to deliver growth*

Given the scale of Mercia's recent growth, the Group is now set for its next phase, our 'Chapter 2', of delivering both shareholder and stakeholder value from a materially larger operation. The opening of this new chapter is reflected in the recently restructured Executive Team and new additions to the Board. The internal promotions of Julian Viggars to Chief Investment Officer and Executive Director, whose track record in 'picking winners', such as Blue Prism Group plc and Xeros Technology Group plc, speaks for itself, and that of successful entrepreneur Peter Dines as Chief Operating Officer (as well as continuing his role as Head of Life Sciences & Biosciences) are indications of the depth of proven investment and management talent within Mercia. In addition, Dr Jonathan Pell and Caroline Plumb OBE have joined Mercia's Board as Non-executive Directors, adding their successful business building wisdom to our already well-established Board.

Today, Mercia is far more than just the sum of its parts. It has built a significant platform throughout the UK regions capable of unearthing some of the most potentially valuable businesses of the future, and in so doing, generate superior returns for its fund investors and shareholders alike. That path to shareholder value creation will not always be linear. However, the overall progress of the balance sheet portfolio is tangible, the number of exciting young businesses being shaped in the funds' portfolios is accelerating, the 'dry powder' available for future fund investing is significant and our net expenses are reducing, thus maximising the capital available on our balance sheet. We remain focused on the day-to-day needs of the portfolio and on delivering against our strategic plan and are increasingly enthusiastic about the potential of our direct investments.

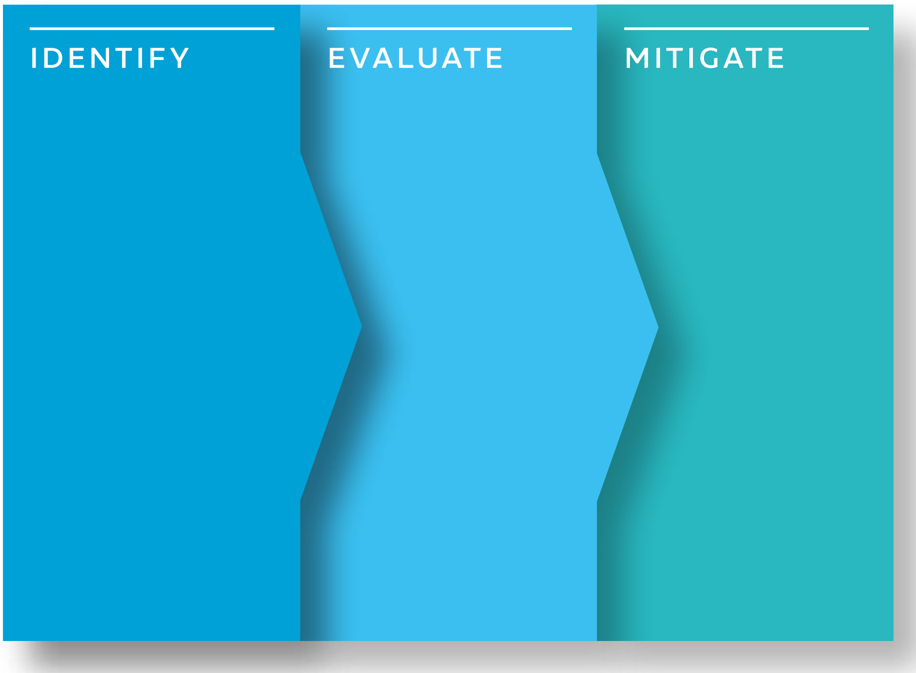
Ultimately Mercia is a people business and to this end, I would like to acknowledge and thank all of the Groups' employees for their tremendous hard work and the Non-executive Directors for their wisdom and guidance. Mercia is increasingly recognised as a leading player in the financial ecosystem of the UK regions and I am extremely grateful to all its valued stakeholders in supporting the Group to this juncture. There is far more to come from Mercia Technologies.

Dr Mark Payton
Chief Executive Officer
29 June 2018

PRINCIPAL RISKS & UNCERTAINTIES

RISK FRAMEWORK

The Board considers that the risks detailed below represent the key potential obstacles to achieving the Group's strategic objectives. The key controls over the Group's principal risks are documented in Mercia's risk register which includes an assessment of the risk, likelihood of occurrence, severity of impact and mitigation actions.



The Board 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. The Group's risk management framework can only provide reasonable, not absolute, assurance that principal risks are managed to an acceptable level, whilst also acknowledging the fact that the venture capital sector in which Mercia operates has investment risk inherent within it. Mercia's risk framework is therefore constructed so as to identify and navigate the inherent downside risks, whilst seeking to exploit upside risk.

During the year Mercia has continued to build on its risk management framework with a particular focus on cybersecurity, having engaged external cybersecurity consultants to carry out a full review of the Group's systems, controls and processes.

The Group's principal risks and uncertainties, their possible consequences and mitigation are set out in the following pages.

Risk	Possible consequences	Mitigation
The majority of the direct investment portfolio comprises businesses at a relatively early stage in their development and as a result carry inherent risks. The technology sector in which these companies operate has technical and commercial risks inherent in it. Typically such companies are developing new or disrupting existing technologies and breaking new ground commercially.	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 or may not achieve commercial traction, however attractive the opportunity might appear; 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. The length of time taken for these companies to arrive at success or failure may be protracted, placing them under severe pressure to maintain the financial support required over a sustained period of time.	All of the Group's direct investments are companies which have emerged from the funds managed by Mercia Fund Managers ("MFM"), the Group's fund management operation. 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. 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 the Group's investment teams during the investee company's early stage of development means that Mercia 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.
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 will 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 materially detrimental effect on the overall value of the Group's investment portfolio. Currently, the top 5 direct investments represent 55.2% of the total portfolio by value.	The Group currently directly invests across four 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. The current portfolio continues to be well balanced. 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. Technology sector evolution and the specific areas that Mercia focuses on are kept under review.
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 realisations.

Risk	Possible consequences	Mitigation
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 65% of the top 20 direct investment portfolio companies 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 and the Group works collaboratively with its university partners to maximise the commercial potential of university-derived intellectual property.
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 on 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 direct investment portfolio companies.	The Group focuses its investment activities predominantly on 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 Directors, 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 its network of deal flow introducers to the managed fund business. 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 monitors the remuneration and incentive structures of all senior staff across the Group, in conjunction with seeking advice, when appropriate, from specialist remuneration consultants.

Risk	Possible consequences	Mitigation
MFM may cease to be authorised by the Financial Conduct Authority ("FCA").	MFM's constituent subsidiaries are each authorised and regulated by the FCA as small authorised UK Alternative Investment Fund Managers ("AIFM") (Sub-threshold). Should any of those subsidiaries cease to be authorised and regulated by the FCA, it would no longer be authorised to act as the investment manager of the respective funds being managed. 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) lose one or more of the principal sources of potential direct investments for the Group.	The Group mitigates this risk by ensuring that MFM acts at all times with integrity, honesty, skill, diligence and fairly in conducting its investment activities. The Group regularly reviews the financial positions of each MFM subsidiary to ensure that adequate financial resources are maintained in accordance with FCA rules. The Group also ensures that MFM employs the resources and procedures that are necessary for the proper performance of its business activities and complies with all regulatory requirements applicable to the conduct of its business, so as to promote the best interests of the funds under management and fund investors. The Group ensures that MFM communicates information to fund investors in a way which is fair, clear and not misleading. MFM also communicates with the FCA in an open and transparent manner when submitting regular reporting, notifications and disclosures. The Group's compliance function is staffed by experienced and FCA-approved personnel.
The UK's future exit from the European Union may impact upon both the Group and its portfolio companies.	Future European trade barriers or border controls may impact portfolio company growth prospects. Additional equity capital may be more difficult to raise.	Technology is a sector that works without national barriers and will only increase in importance. 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.

Risk	Possible consequences	Mitigation
Breaches of the Group's digital security, through cyber attacks or a failure of the Group's digital infrastructure, could result in the loss of commercially sensitive data and/or create substantial business disruption.	Such security or infrastructure failures may result in the loss of data, misuse of sensitive information, reputational damage and legal or regulatory breaches.	The Group reviews its infrastructure and cybersecurity processes with its outsourced IT provider on a regular basis and continues to invest in resources to enhance its cyber defences and improve network monitoring to minimise the impact of any external security breach. Critical business continuity plans and disaster recovery contingencies are in place and have been tested. The Group engaged external cybersecurity consultants to undertake a detailed review of the Group's infrastructure and processes in June 2017 and whilst no cyber defences can always be considered to be 100% foolproof, cybersecurity enhancements have been made.
A proportion of the early-stage deal flow for Mercia derives from, and is financed via, the Group's SEIS and EIS funds which include capital raised from sophisticated investors seeking, inter alia, tax relief. Any changes in legislation around SEIS and EIS relief could impact on Mercia's ability to raise adequate funds to support all suitable investment opportunities.	Although the Directors do not believe that such investors choose Mercia's SEIS and EIS funds solely for the tax relief available, such reliefs are an element of their decision making and if those reliefs were to be withdrawn this could result in the size of the SEIS and EIS funds being reduced, or make it difficult for Mercia to successfully launch one or more similar future funds.	Changes in tax legislation would affect the whole industry, so Mercia would not be at a competitive disadvantage. Investors would make their decisions solely on companies' track records, executive and investment team members' reputations and performance. In its relatively short time in the industry, Mercia has established a strong reputation with a proven track record of delivering value to fund investors and would therefore be well placed to continue operating in any changed environment.
Mercia's ability to expand its business by entering into additional links and collaborative arrangements with universities and other research institutions will depend on the willingness of organisations of suitable quality to enter into such arrangements. Failure to successfully initiate new and additional partnerships may limit Mercia's ability to expand.	Failure to interact with university technology transfer offices may result in the termination of Mercia's non-exclusive partnership arrangements.	Nicola Broughton (Investment Director, Head of Universities) and her team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive. During the year Mercia added the University of Edinburgh to its list of university partners. The Group will continue to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research intensive institutions through non-exclusive arrangements.

A GROWING PORTFOLIO

Julian Viggars
Chief Investment Officer

Net cash invested
£21.1m
2017: £11.7m

Net fair value movements
£2.8m
2017: £4.3m

I am delighted to have taken over the role of Chief Investment Officer on 17 April 2018. Having previously been responsible for the management of the Group's technology and venture funds alongside the delivery of recent new fund mandates, I have also overseen the development of a significant number of successful quoted companies from start-up, including Blue Prism Group plc, Xeros Technology Group plc and OptiBiotix Health plc, and am very encouraged by the quality of assets within Mercia's managed funds – the funnel to the direct investment portfolio. A small number of these will transition across to the direct investment portfolio during the new financial year.

I see tremendous potential in our direct investment portfolio, where a number of investee companies are growing rapidly and attracting the attention of large corporate customers or licensees. As with any portfolio it is important to recognise where best to allocate our energy and capital, so alongside my colleagues I will be reviewing all of our investments and reassessing their potential during 2018, with the aim of positioning each in the best manner possible to enable them to fulfill their realisable potential.

A balanced and growing portfolio
We have had another year of good progress across the direct investment portfolio, resulting in net upward fair value movements of £2.8million and an investment realisation above our carrying value of £9.9million for Science Warehouse. We have also added significantly to our managed funds and can already see the benefits of a growing pipeline of exciting technology businesses.

Portfolio overview
In the last 12 months we have seen the continued maturing of the direct investment portfolio where over 99% of the total portfolio value is represented by the top 20 investments, out of a total of 26. A number of our investee companies have raised significant sums of capital during the year to fund their growth and we have continued to build out the management teams and boards at our key assets. £21.1million has been invested over the past year in total. As at 31 March 2018 the value of the Group's direct investment portfolio has increased to £66.1million from £52.0million, reflecting the new investments of £21.1million, investment realisations of £9.9million and net fair value gains of £2.8million. This represents good overall progress and we are particularly pleased with the full cash disposal of Science Warehouse, the £7.5million funding round at Oxford Genetics which resulted in a significant uplift in our carrying value, and a number of other syndicated rounds at key portfolio assets.

Investment activity

In the last 12 months we have invested £14.4million in 14 of our existing portfolio companies as many now look to scale their growth. Our aim remains to build and/or maintain our equity stake at c.25% and above in these assets, whilst increasingly looking to bring in new third-party capital.

During the financial year we also invested £6.5million in three new Emerging Stars, all of which originated from the managed funds pipeline, and also contributed £0.2million of capital to three of our new managed funds:

- Intechnica is a Manchester-based services and software product business with c.£6.0million annual revenues. Its focus is on the critical operations of ecommerce businesses, including website resilience and efficiency, high volume ordering systems, online ticketing and mobile customer relationship management applications. It is developing a suite of products to help manage inbound web traffic. In the last 12 months the business has raised £4.7million to fund product development. The company was held in Mercia's managed funds for circa four years.
- Aston EyeTech t/a Eyoto was a spinout from Aston University in 2013 when Mercia first invested through its managed funds. The company has a range of hardware and software products focused on ocular care. The business raised £5.0million in November 2017, including £1.8million from Mercia, to fund the next stage of its growth. The company was held in Mercia's managed funds for circa four years.
- Voxpopme is a Birmingham-based video insights platform that provides innovative video analytics for marketing purposes with internationally renowned clients such as Microsoft, Tesco, Verizon and Accenture. The business has successfully entered the US market and Mercia's capital will help scale its growth. The Group made its first direct investment into the company in March 2018. The company was held in Mercia's managed funds for circa one year.

We have seen strong growth in the pipeline for direct investments across all four sectors in the last 12 months through the increasing scale of our managed funds which have deployed £18.7million from our venture funds in 53 deals. We will continue our aim of building excellent management teams within these businesses that can scale them before we commit our balance sheet capital. As a result, and as shown above, we therefore expect in the future that larger, and increasingly syndicated, investment rounds will be a growing feature of our new direct investments.

Fair value movements

The total net fair value gain in the year amounted to £2.8million compared to £4.3million in the prior year. We have recognised notable fair value uplifts at Oxford Genetics (£4.4million), Warwick Audio Technologies (£1.6million) and Intelligent Positioning (£1.2million), all based on the price of third-party investment into the businesses. We have however also recognised a negative fair value movement of £2.5million at Concepta PLC, an investment that we mark-to-market as it is admitted to trading on AIM. Furthermore, and in line with our valuations policy, we have also made downward adjustments to the carrying values of three other assets in our core portfolio. Edge Case Games and Soccer Manager are currently performing below expectations and we have therefore made 100% and 25% provisions respectively against our equity carrying values, and whilst Smart Antenna Technologies is continuing to make good technological progress, we have reversed a previous fair value uplift, taking our holding value back to cost.

In March 2018 we were delighted to complete the sale of Science Warehouse to Advanced Business Software and Solutions Limited. The sale generated cash proceeds of £10.5million and a realised gain against our carrying value of £0.6million. This is further validation of both our investment model and our prudent valuation policy. The cash realisation provides additional funds to help scale the exciting high-growth businesses in our direct investment portfolio.

Portfolio composition

The year ended with a portfolio of 26 companies valued at £66.1million. The Board's aim remains to build a balanced portfolio across the four technology sectors on which we focus.

Further details on each of our four key sectors and eight of our leading investee companies are provided in the following pages.

Julian Viggars
Chief Investment Officer
29 June 2018

"2017/18 saw Mercia remain focused on sectors in which the investment teams have significant commercial insight and extensive personal networks.

Portfolio value
£66.1m

SOFTWARE & THE INTERNET

Dr Alistair Forbes
Investment Director,
Head of Software & the Internet

Businesses being tracked in our managed funds with Emerging Stars potential

7

During the year, Dr Alistair Forbes joined the Group as head of Mercia's Software & the Internet sector, bringing to the role extensive experience from the software industry in both CTO and CEO roles.

The Software & the Internet sector remains one of the most active for Mercia across both the managed funds and direct investments.

Spending on information technology is projected to continue to grow across enterprises, small and medium-sized business sectors, driving growth opportunities for software companies in multiple sectors. Mercia continues to pursue a focused strategy within this sector, targeting those areas with the highest growth rates and strong exit valuation multiples.

Cybersecurity has been and continues to be a focus area for Mercia - it is one of the most active sectors in the market, reflecting the ever-increasing scale and complexity of the cyber threat landscape. The market is expected to grow from $84.0billion in 2015 to $130.0billion by 2021[1]. The Group's direct investment in Intechnica targets this sector and there are a number of investments through the managed funds that offer future potential in this area.

Business to business ("B2B") software as a service ("SaaS") companies have been one of the most active categories in the software industry over the last few years and many companies in this sector have been able to deliver rapid revenue growth and achieve exits with strong returns to investors. Publicly quoted cloud software businesses in the US have outperformed the NASDAQ and Standard & Poor's indices by a factor of four to five times in the last seven years[2]. Mercia has a range of investments in this space, including Voxpopme, its second new direct investment in the sector in this financial year, and deal flow remains strong.

Data analytics and the application of artificial intelligence and machine learning have attracted large amounts of investment in recent years and market size estimates suggest that in the artificial intelligence area alone, the market will grow from $4.0billion in 2018 to $34.0billion in 2023[3]. Mercia has investments in this segment through its managed funds and is actively engaged with some of the leading research groups in this area through its extensive network of university partnerships. While this market is still in the relatively early stages of development, we expect to see excellent future opportunities for value creation.

Some emerging technologies, such as blockchain and quantum computing, are likely to be growth areas in the future but there are very few commercial applications for these at present. We continue to monitor these and other disruptive technologies and expect that investable propositions will emerge in the next two to three years from Mercia's proprietary funds funnel.

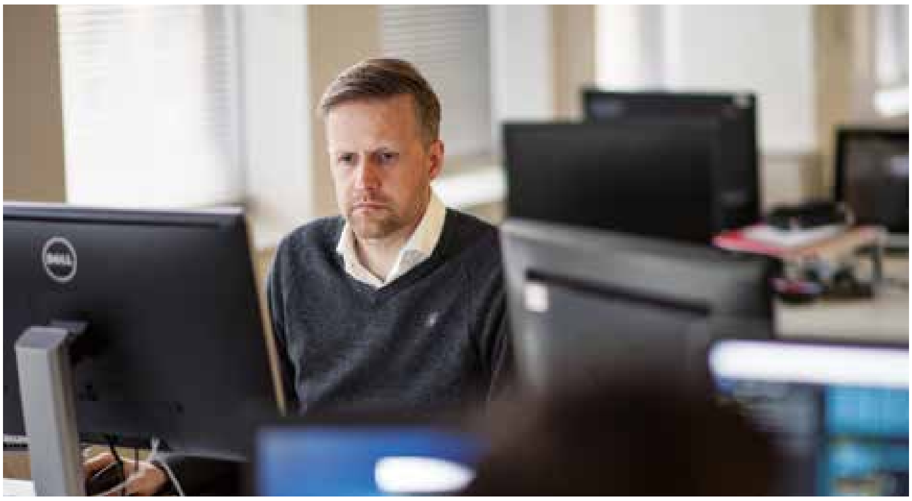
For the year to 31 March 2018, Mercia invested £5.4million in this sector with new Emerging Stars, Intechnica and Voxpopme, receiving direct investment. As at 31 March 2018 the Group had a total of £11.0million of asset value in this sector, representing 16.7% of the total portfolio value, having achieved the £10.5million cash sale of its investment in Science Warehouse during the year (further details are included on page 21). Below is further information on two of the direct investments from this sector.

Visit merciatech.co.uk for more information on our portfolio in this sector

1. reuters.com/brandfeatures/venture-capital/article?id=31600
2. bvp.com/strategy/cloud-computing/index
3. statista.com/statistics/607716/worldwide-artificial-intelligence-market-revenues/


Design

INTECHNICA



Intechnica

Location
Manchester

intechnica.com

As at 31 March 2018, the Group held a 27.9% interest in Intechnica at a fair value of £4.0million. Mercia invested £3.8million during the year of which £3.5million was part of a £5.0million syndicated round alongside existing private investors. The investment is held at the price of the most recent syndicated investment round.

Mercia had previously supported Intechnica through its managed fund, the North West Fund for Venture Capital for four years, before it became a new Emerging Star in April 2017 through an initial investment of £250,000. Existing private investors who participated in the syndicated investment round included Charles Sharland and Tony Bolland, both of whom were key executives behind Appsense, which was sold to US technology company, Landesk, in early 2016.

Intechnica's origin in 2006 was as a specialist web performance assurance consulting firm, delivering a combination of project and managed service solutions to a growing blue-chip client base. These services included bespoke technology developments for some clients and, based on its experience in delivering these consulting assignments, the company developed a software product, Traffic Defender, a solution that protects high-profile web sites from performance degradation and manages the increasing problem of non-human (robotic) traffic targeting such sites. Traffic Defender is now offered as a SaaS solution with a recurring subscription fee.

The company has continued to grow its consultancy business since Mercia's investment and has extended its range of service offerings to include technical due diligence for mid-market private equity firms, generating project revenues and ongoing opportunities for both consulting and product sales. The consulting business provides a strong underlying revenue stream but the greater value generation is projected to come from the growth of its Traffic Defender product. The market for botnet detection products is a new and rapidly-developing segment that is expected to grow from $203.2million in 2018 to $1.2billion by 2022, a compound annual growth rate ("CAGR") of 42.4%[1]. Intechnica has been cited as a notable player in this market in a recent independent market report[2].

Intechnica's management team is led by founder and CEO Jeremy Gidlow, whose background spans the IT sector, having previously worked for highly regarded companies including GSK, Unilever, Sky and Channel 4. His co-founder and CTO, Andy Still, was the former principal developer at marketing business Majestic. The board also includes COO Adrian Moss, formerly product director – digital marketing products at AutoTrader, and two non-executive directors, Professor Mark Hurley and Charles Sharland.

The company has continued to grow its product business and has recruited additional experienced staff, including a general manager for the product division, Nick Baglin, who has held senior commercial roles at Hewlett Packard and CyberArk Software, as well as experienced product management and commercial staff. There is a developing pipeline of high-value opportunities for Traffic Defender in the media, retail and entertainment sectors and the company expects to see strong growth in revenues from these in the near term.

1. sectorpublishingintelligence.co.uk/news/1980965/
2. https://industrytoday.co.uk/telecoms/botnet-detection-market-2018-global-trend--segmentation-and-opportunities--forecast-to-2025

VOXPOPME

Voxpopme

Location
Birmingham

voxpopme.com

As at 31 March 2018, the Group held a 12.3% stake in Voxpopme at a fair value of £1.0million. Mercia invested £1.0million during the year and the investment is held at cost. The company was held in the managed funds for approximately one year before becoming an Emerging Star in March 2018.

Voxpopme is a Birmingham-based SaaS business that provides video analytics software to firms in the market research and customer experience sectors. The company's key products comprise a suite of video analytic tools enabling market research companies to gain better quantitative and qualitative feedback and data from surveys than was previously possible from a standard marketing questionnaire.

Established in January 2013, Voxpopme is led by founders Dave Carruthers (CEO), Tom Williams (CRO) and Andy Barraclough (CTO). The board is chaired by David Gales, an experienced non-executive director with a strong financial background, and includes three other experienced non-executive directors. The company also recruited a CFO in 2017 to strengthen its financial and operational capabilities.

The software service was initially priced on a per use basis, with customers buying credits that could be used flexibly over time. This is being transitioned to a recurring subscription model, generating revenue on a more consistent basis resulting in a potentially higher revenue multiple for valuation purposes. In 2017, subscriptions represented 35% of total revenues but this is projected to increase to 50% in 2018 and over 70% by 2020. Since 2015, the business has more than doubled its revenue each year and the budget for 2018 shows revenue growth of 140%.

While the company remains UK based, it has been very successful in growing its business in the USA, with 60% of 2017 revenues being derived from this region. This has been driven by the decision of the CEO to move to the USA in order to spearhead the expansion there. A number of senior hires have been made in the USA since the original Mercia Fund Managers' managed fund investment, including commercial staff with deep industry knowledge and connections. The company has been proactive in recruiting experienced staff and this positions it well to continue its strong growth trajectory.

In April 2018 the company launched its new VideoCX offering, a video-first customer experience ("CX") platform designed to bring the voice of the customer to life. The CX market is growing rapidly, with a projected CAGR of over 20% to 2022[1], and this new product will help the company to sustain its strong revenue growth.

Voxpopme has secured a range of blue-chip customers including Microsoft, Aviva, GM and Verizon. A significant number of these provide substantial upsell opportunities that should enable the company to achieve consistently high revenue retention rates. The company is also actively pursuing a partnership strategy as part of its go to market approach. It has engaged with a number of key players in the market research sector and has signed partnerships with several including an agreement with Kantar, one of the world's leading audience measurement companies, to white-label the Voxpopme technology and sell it as part of its own product suite to customers including Accenture, Camelot, Clorox, Microsoft, Qualtrics and Verizon.

1. https://digitalmarketingsolutionssummit.co.uk/all/20-brands-abandon-mobile-apps-virtual-customer-assistants-come-fore/

DIGITAL & DIGITAL ENTERTAINMENT

Mike Hayes
Investment Director,
Head of Digital & Digital Entertainment

Businesses being tracked in our managed funds with Emerging Stars potential

3

Visit merciatech.co.uk for more information on our portfolio in this sector

Headed by the former CEO of SEGA Games for Europe and America, Investment Director Mike Hayes brings considerable expertise and experience to the sector.

The global games market is continuing to grow year on year and it is predicted that consumer spending on games will reach $180.1billion by 2021, a CAGR of 10.3% between 2017 and 2021. It is expected that 2.3billion gamers across the globe will spend $137.9billion on games in 2018. This represents a year-on-year increase of 13%, or $16.2billion. Digital games revenues will account for 91% of the global games market with $125.3billion[1].

The UK games market hit a record high of £5.1billion in 2017[2], with a 12% growth on the previous year. Consumer revenues for the UK video games market is steadily increasing and it was the fifth largest global market in 2017, after China, USA, Japan and Germany.

There was also strong growth across the global games software and hardware markets with gaming fans spending more than £100.0million[3] on virtual reality ("VR") headsets for the first time, a 24% increase on the previous year. The consumer release of the first VR headsets and the increasing affordability of VR hardware provides a strong indication that the popularity of VR games and experiences will continue to grow.

For the year to 31 March 2018, Mercia invested £4.5million in this sector taking the total investment holding value at the year end to £18.7million, representing 28.3% of the total portfolio value. Below is further information on two of the direct investments from this sector.

1. https://newzoo.com/insights/articles/global-games-market-reaches-137-9-billion-in-2018-mobile-games-take-half/
2. http://ukie.org.uk/news/2018/02/uk-games-market-grows-124-record-%C2%A3511bn-2017
3. superdataresearch.com

NDREAMS

nDreams

Location
Farnborough

ndreams.com

As at 31 March 2018, the Group held a 45.6% interest in nDreams at a fair value of £13.0million. Mercia invested £2.0million as part of a £2.7million syndicated funding round alongside sophisticated private investors and nDreams' chair Paul Fitzsimons in July 2017. The investment is held at the price of the most recent syndicated investment round.

nDreams is a developer and publisher of content for VR platforms. It creates and publishes its own experiences and games, and develops for strategic third parties.

Mercia first invested in nDreams in March 2014 through its managed funds and it was held in the managed funds portfolio for approximately one year. The company is now known as one of the UK's leading developers and publishers of VR content and was one of the first to enter the VR games market.

nDreams launched two major titles in the year, the award-winning brawler, Bloody Zombies, which released on five different platforms (both VR and non-VR) and Shooty Fruity, the highest rated VR shooter ever launched on console and which has received a positive reaction from both critics and consumers.

Alongside its own games, nDreams has developed projects for several third parties, including Google, Microsoft, a large VR arcade company, and a major entertainment company. These high-profile partnerships demonstrate the industry's confidence in the design and production quality of nDreams' experiences and games, and the company has continued to build stronger relationships with all the leading VR headset manufacturers. There are an increasing number of potential partner discussions occurring as nDreams builds its high-end B2B pipeline alongside its consumer titles.

As well as creating VR games for consumers, nDreams has expanded into the fast-growing VR location-based entertainment ("LBE") market and completed a major title for VR arcades during the financial year. This title has not yet been announced but it is expected to be revealed in summer 2018.

nDreams is recognised by many as one of the market leaders as a result of its strong management team. Vice president of development Tom Gillo has over 20 years' development experience in the industry and was formerly game director at Sony Entertainment Europe. David Corless, the vice president of publishing, previously held roles as global brand director and head of marketing at SEGA. In addition, the company has hired Martin Prendergast, an experienced COO from outside the games industry, and business development director Steve Tagger, who is leading its growing sales and business development team.

nDreams has now sold more than 320,000 VR experiences and games, and has generated over £3.0million in VR revenue to date. Total revenue for the 2017/18 financial year grew by over 50% on the previous year.

The VR consumer market continues to expand, although not as fast as many had predicted. Sales of high-end VR headsets picked up in the last quarter of 2017 as prices dropped to more affordable levels. The VR market is set to expand faster in the 2018/19 financial year with the launch of several new 'standalone' headsets that require no PC, console or phone, such as the Oculus Go, Vive Focus and Oculus Santa Cruz. Having established close relationships with some of the biggest names in the digital world, nDreams is at the forefront of the expanding VR market and has the potential to be a highly valuable business.

VIRTTRADE

VIRTTRADE

Location
Tunbridge Wells

virttrade.com

As at 31 March 2018, the Group held a 28.4% interest in VirtTrade at a fair value of £2.5million. Mercia invested £1.0million during the year and the investment is held at the price of the most recent investment round, impaired by a 50% provision in 2016/17 against Mercia's then equity value, reflecting slower than forecast commercial traction.

VirtTrade is a developer and publisher of digital trading cards, working with licensors to create high engagement apps for fans. VirtTrade targets the £2.4billion trading cards market. The company received its first investment from Mercia's managed funds in early 2014 and it was held in the managed funds portfolio for approximately one year before becoming an Emerging Star at the end of 2014.

Collectors use in-app currency to purchase packs of cards that can be traded with anyone, anywhere. Cards can carry live data, vibrant imagery, interactive areas, video footage, game statistics and more. The habit-forming nature of trading card collecting transfers well to the digital space, with VirtTrade's monthly revenue per paying user reaching over $30.0.

VirtTrade's trading card innovations include matchmaking for trades, the ability to fuse duplicates to create rare new cards, collection achievements and instant challenge multiplayer games. Following Mercia's initial investment in 2015, VirtTrade developed apps for Panini's flagship properties, the NFL and NBA, and over 100.0million cards were distributed on the platform to over a million users.

VirtTrade is now viewed as a leading publisher in this growing segment, having secured rights to Discovery Networks, Valiant Entertainment and Formula 1. Thanks to a streamlined content creation platform and white label apps, VirtTrade was able to go from concept to beta for Formula 1 in just three months, with 250 cards ready for the June 2018 launch and a dedicated 'head-to-head' race mode where players can put their card collections to the test on Grand Prix circuits. The Formula 1 Trading Card Game 2018 was launched on the App Store (iPhone) and Play Store (Android) in June 2018.

ELECTRONICS, MATERIALS, MANUFACTURING/ ENGINEERING

Dr Mark Volanthen
Investment Director, Head of Electronics, Materials, Manufacturing/Engineering

Businesses being tracked in our managed funds with Emerging Stars potential

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This sector is led by Investment Director Dr Mark Volanthen and is focused on identifying and supporting the next generation of disruptive proprietary technologies in energy and communications together with high-value electronics and manufacturing applications.

The portfolio has continued to make positive progress with several assets accelerating commercial traction through global partnerships with leading industry players. Our university partnerships continue to play a particularly important role with this sector as many of our investments in the portfolio have originated from these key relationships. Investment from Mercia has continued to support rapid expansion in this sector, with five of our direct investments receiving follow-on funding during the year. There have also been several follow-on investments and a number of exciting new investments in the managed funds portfolio, strengthening the pipeline of future direct investments over the next two years.

Proprietary intellectual property within each investment underpins the disruptive technologies being commercialised and a number of new patents have been applied for across the sector this year. This sector comprises a diversified portfolio of eight technology companies, targeting large global markets including automotive, consumer electronics, semiconductors, energy storage and mobile communications.

The global market for consumer electronics is continuing to grow rapidly and it is expected to reach around €18.0billion[1] in 2018. The semiconductor market is forecast to grow by 7.5% from $419.0billion in 2017 to $451.0billion in 2018[2] and the automotive market is forecast to grow by 2.5% in the same period[3].

The UK is continuing to climb up the rankings of global producers, having moved from being the ninth largest manufacturer in the world to the eighth in 2017/18. The UK manufacturing industry employs 2.6million people and the EU is still the dominant market for exports, accounting for 48.0% of manufactured exports in 2017[4].

For the year to 31 March 2018, Mercia invested £3.9million in this sector taking the total investment holding value at the year end to £16.2million, representing 24.5% of the total portfolio value. Below is further information on two of the direct investments from this sector.

Visit merciatech.co.uk for more information on our portfolio in this sector

1. statista.com/statistics/491307/consumer-electronics-united-kingdom-uk-market-value/
2. gartner.com/newsroom/id/3845163
3. eulerhermes.com/economic-research/sector-risks/Global-Automotive-Report/Pages/default.aspx
4. eef.org.uk/campaigning/campaigns-and-issues/manufacturing-facts-and-figures

WARWICK AUDIO TECHNOLOGIES

warwick
audio technologies

Location
Nuneaton

warwickaudiotech.com

As at 31 March 2018, the Group held a 64.0% interest in Warwick Audio Technologies at a fair value of £6.2million. Mercia invested £1.8million net during the year as part of a £3.1million syndicated round alongside GuoGuang Electric Co ("GGEC") and a number of sophisticated private investors. The investment is held at the price of the most recent syndicated investment round.

Warwick Audio Technologies, a University of Warwick spinout, is a creator of personal listening experiences based on its patented electrostatic audio transducer modules. The company is focused on delivering disruptive listening solutions to two markets, the high-end headphone market and the $8.0billion in-car audio market where its product's thin, lightweight form factor and power efficient characteristics deliver significant value.

During the year, the company released its first product, the Sonoma Model One headphone system, a premium electrostatic wired headphone system aimed at the professional use audiophile community. Since its launch, the product has won seven awards, including Product of the Year from the American magazine, Tone Audio, and the UK's Hi-Fi+ magazine. The company is now expanding its headphone product portfolio and developing its first products for the automotive market.

The company was founded in 2002 and supported through the managed funds for seven years before becoming an Emerging Star in 2014 and it has developed a new generation of patented electrostatic planar transducers, the High Precision Electrostatic Laminate ("HPEL"). The company's patents enable it to deliver ultra-high-quality audio in an easy to manufacture package that is thinner, lighter and significantly more reliable than its competitors' products. A key part of that package is the proprietary drive electronics that also deliver significant power efficiency benefits over existing products.

CEO Dr Mike Grant is a highly experienced business leader who has developed a number of successful global technology propositions. These include introducing embedded 3D graphics rendering technology into the mobile phone industry, the creation of a 200.0million user chat community and the development of major mobile games publisher, Superscape, now part of global games publisher, Glu Mobile.

The board is strengthened by non-executive director Gary Waters, the former vice president and general manager of BOSE® Corporation, who has supported the company in the commercialisation of the HPEL and opened up new opportunities in the automotive sector. Post year end, David Roberts, a leading entrepreneur in the UK automotive industry, joined the board as chairman.

During the year Warwick Audio Technologies moved to new offices at the MIRA Technology Park in Nuneaton, the largest automotive technology park in Europe. The move reflects continuing positive momentum for the business and its growing engagement with the automotive sector. The new office is located in the heart of the UK's automotive manufacturing industry, close to major players such as Jaguar Land Rover and Aston Martin, together with numerous smaller automotive original equipment manufacturers ("OEMs").

IMPRESSION TECHNOLOGIES

Impression TECHNOLOGIES

Location
Coventry

impression-technologies.com

As at 31 March 2018, the Group held a 26.6% interest in Impression Technologies at a fair value of £3.1million. Mercia invested £1.5million during the year as part of a £3.0million syndicated round alongside IP Group plc. The investment is held at the price of the most recent syndicated investment round.

Impression Technologies is the leading developer of advanced lightweighting Hot Form Quench (HFQ®) technology based on intellectual property from the University of Birmingham and Imperial College. It first received investment from Mercia's managed funds in 2014 before becoming an Emerging Star thirteen months later in 2015. Impression Technologies' patented HFQ® technology is used for the mass production of complex, deep drawn, high-strength aluminium structures. Multiple applications exist within the automotive, aerospace, rail, industrial and consumer electronics sectors.

HFQ® technology offers significant savings in weight, cost and system complexity over alternative processes with the ability to transform the use of aluminium for volume applications. The automotive industry sees considerable benefit in HFQ® as it looks to reduce vehicle weight to assist in carbon emission reduction and electric vehicle battery life.

Impression Technologies opened the world's first HFQ® facility in Coventry in 2016 and is currently manufacturing over 25,000 parts per year with the technology in use on four production vehicles, including the Aston Martin DB11. The business is actively engaged with the majority of global automotive OEMs and is working with Gestamp, the world's second largest automotive tier 1 supplier of pressed parts, through the £9.6million Raceform grant programme that Impression Technologies and others secured in November 2017.

Impression Technologies' intent is to establish HFQ® technology as a global lightweighting standard for all OEMs and tier 1 suppliers, and to drive revenues through licensing fees and royalties with a secondary revenue stream from engineering services, support services and other fees.

The business is led by CEO Jonathan Watkins who has over 25 years of experience in commercialising technology in the international automotive, industrial and clean technology sectors, having held senior commercial and operational leadership positions in Federal-Mogul, Textron, and more recently, Ceres Power. Jonathan is supported by a strong executive team and board, which is chaired by Ian Jenks and includes Professor Jianguo Lin of Imperial College.

LIFE SCIENCES & BIOSCIENCES

Peter Dines
Chief Operating Officer and Investment Director, Head of Life Sciences & Biosciences

Businesses being tracked in our managed funds with Emerging Stars potential

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This sector is headed by Chief Operating Officer and Investment Director Peter Dines and its key areas of focus are diagnostics, digital health, medical devices and synthetic biology.

The government's Life Sciences Industrial Strategy published last year by Sir John Bell, former President of the Academy of Medical Sciences, highlights the significant position of strength the UK has in the life sciences sector. A combination of a strong science base, a vibrant commercial sector in health and a comprehensive, engaged, data-rich healthcare system could provide an ideal environment for the UK to lead in many of these emerging areas of life sciences and to create successful new industries globally.

The life sciences industry represents one of the dominant economic sectors in the UK. 'Health life sciences' refers to the application of biology and technology, leading to health improvement, including biopharmaceuticals, medical technology, genomics, diagnostics and digital health. It has the advantage of very high productivity compared to other sectors and generates a wide range of products including drugs, medical technology, diagnostics and digital tools, as well as products for consumer health. It is also widely distributed across the whole of the UK and brings significant employment and economic growth to virtually every region.

In the coming decades, healthcare spending will surpass the economic growth in OECD countries by 3.3% versus 2.0% CAGR, creating a sustainability challenge for healthcare systems and new opportunities for life sciences industry growth. This is driven by macroeconomic factors such as an ageing population, a growing middle class and the increasing burden of chronic diseases that will accompany the significant change in demography. The global life sciences industry is expected to reach over $2.0trillion in gross value by 2023 (compared to approximately $1.6trillion today)[1].

The UK is well positioned to lead in the discovery and evaluation of new technologies, including everything from patient records, X-rays, pathology, images, genomics, healthcare management tools, diagnostics, synthetic biology, digital monitoring and digital healthcare delivery that will fundamentally change the way we think about human illness and how best to manage it.

For the year to 31 March 2018, Mercia invested £7.1million in this sector with new Emerging Star, Eyoto (previously known as Aston EyeTech) receiving direct investment. As at 31 March 2018 the Group had £19.9million of asset value in this sector, representing 30.1% of the total portfolio value, with our university partners continuing to play a key role in helping to provide new investment opportunities. Below is further information on two of the direct investments from this sector.

Visit merciatech.co.uk for more information on our portfolio in this sector

1. Life Sciences Industrial Strategy – A report to the Government from the life sciences sector

OXFORD GENETICS
BIOLOGY ENGINEERED

Location
Oxford

oxfordgenetics.com

As at 31 March 2018, the Group held a 40.6% interest in Oxford Genetics at a fair value of £9.1million. Mercia invested £2.5million during the year of which £2.0million was part of a £7.5million syndicated round alongside Invesco Asset Management. The investment is held at the price of an anticipated syndicated investment round.

Oxford Genetics, which was held in the managed funds for two and a half years before becoming an Emerging Star in 2015, is a specialist designer and developer of biological molecules such as proteins, viruses and cells operating within the rapidly growing synthetic biology market, which is estimated to reach c.$26.0billion by 2025[1]. It provides design, development and production services for biological therapeutics.

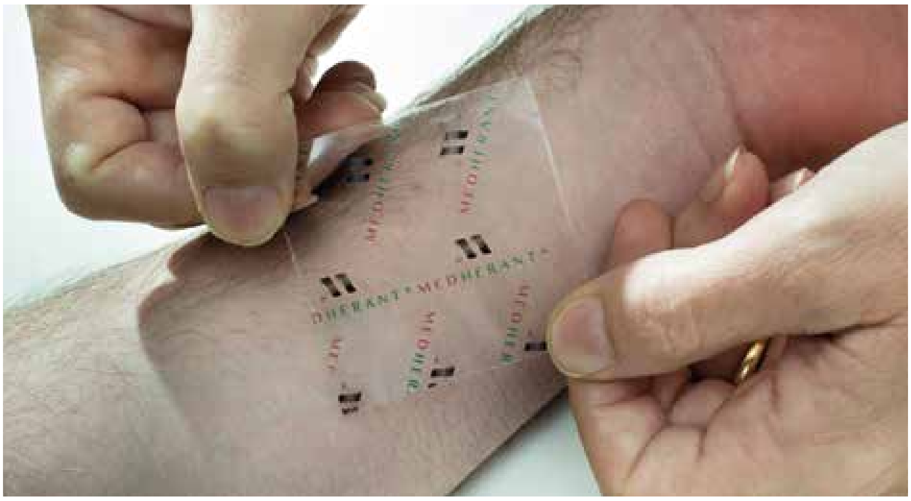
The company is regularly mentioned in reviews of top businesses operating in this sector[2]. It has four main technology areas focused on improving the discovery, design, development and deployment of biological molecules. These technology areas are supported by the company's patent-protected SnapFast DNA engineering technology, which makes genetic engineering more efficient, combined with its selective use of in-licensed CRISPR technology.

The team has been building a best-in-class synthetic-biology based tool set, supplemented by online sales of its DNA designs and plasmid development services, towards a model of technology licensing and high value-add service provision. Oxford Genetics has continued to develop its IP portfolio estate and now has nine patent families. The company employs 52 people and sales continue to grow by over 100% year on year. With the opening of a US office in this period, sales in the US account for over 30% of total revenue and currently form its largest growth market.

Oxford Genetics benefits from exceptional talent at all levels in the organisation. During the year, Martin Hall (previously CFO of Allinea Software, a Mercia portfolio company sold to ARM in 2016) was brought into Oxford Genetics to support the founding CEO Dr Ryan Cawood and the senior management team, as they continue to scale this promising business. Professor Seymour, who is also a key founder of the business, has played significant roles in the success of two other of Mercia's portfolio, PsiOxus Therapeutics and The Native Antigen Company.

1. prnewswire.com/news-releases/synthetic-biology-market-size-is-projected-to-be-around-26-billion-by-2025-crystal-market-research-636705963.html
2. http://cc-investments.com/prnewswire.php?rkey=20180418enUK201804187717_Public&filter=1637

MEDHERANT



MEDHERANT®

Location
Coventry

medherant.co.uk

As at 31 March 2018, the Group held a 31.9% interest in Medherant at a fair value of £3.5million. Mercia invested £2.5million during the year as part of a £3.8million syndicated round alongside both private investors and other existing shareholders. The investment is held at the price of the most recent syndicated investment round.

Medherant, which was held in Mercia's managed funds portfolio for eighteen months before becoming an Emerging Star in 2017, is a University of Warwick spinout that benefits from an extensive patent estate and an exclusive worldwide licence from Bostik SA for medical use of a novel adhesive. The company is developing products for pain and central nervous system diseases using its innovative platform technology for the delivery of drugs via patches. The global transdermal drug delivery market was valued at $32.5billion in 2016, and is expected to grow at 9.5% CAGR during 2017-2023[1].

Medherant's TEPI Patch® is a thin, flexible, easy to apply and remove patch that has excellent adhesion and is water-resistant. It is capable of delivering high doses of drugs directly to the areas where they are needed or systemically, at a controlled rate and over extended delivery times.

The company has its own in-house pilot production facility and during the year has entered into a partnership for clinical and commercial production with an established third-party contract manufacturer of drug delivery patches. Unlike some other patch production processes, no solvents are required to manufacture TEPI Patches thus facilitating scale-up and reduced production costs.

Medherant's lead product is a patch for the delivery of ibuprofen for the treatment of local pain due to injury. The company is initially focusing on the European market and expects to seek market authorisation in 2020. The global market for an ibuprofen transdermal patch was valued at $379.6million in 2017 and it is expected to grow at a CAGR of 6.5% between 2017 and 2022[2].

The company has also formulated TEPI Patches containing lidocaine, diclofenac and other drugs used to treat pain, as well as seeking partnerships, through evaluation agreements, to out-license the technology for applications outside of its core focus. Progress to market for these latter patches will be typically funded by partners on commercial terms beneficial to Medherant.

1. alliedmarketresearch.com/transdermal-drug-delivery-systems-market
2. Biopharma Vantage

INCREASING REALISATION PROCEEDS AND LOWER NET EXPENSES

Martin Glanfield
Chief Financial Officer

Net assets

£123.5m

2017: £121.4m

Unrestricted cash

£49.4m

2017: £59.6m

In the year to 31 March 2018 Mercia Technologies PLC continued to make tangible progress across all of its strategic priorities, including a further cash realisation and lower net expenses.

Revenue increased 53.1% to £10.2million (2017: £6.7million) whilst administrative expenses increased by 16.3% to £10.6million (2017: £9.1million). Faster revenue growth relative to the Group's increased cost base resulted in an 82.4% reduction in the Group's net expenses (being total revenue less all staff and administrative expenses) to £0.4million (2017: £2.5million). The Group's revenue increase was largely derived from the growing quantum of funds under management and the accelerating deployment of those funds, together with one-off revenues generated from both existing fund performance fees and new fund closing fees. Revenue derived from the balance sheet portfolio also increased. The cost base increase arose mainly from the recruitment of additional investment and support staff, to manage and deploy the substantial new fund mandate wins in both 2017 and 2018. The resultant overall reduction in net expenses is enabling more of the Group's cash to remain available for direct investment purposes, as well as minimising the negative impact of such net expenses on NAV per share.

During the year the Group invested £21.1million (2017: £11.7million) into 14 existing (2017: 11) and three new (2017: four) direct investments. Cash proceeds from the disposal of the Group's investment in Science Warehouse Limited totalled £10.5million (2017: £2.9million).

As at 31 March 2018 the fair value of the Group's direct investment portfolio was £66.1million (2017: £52.0million). Net fair value gains during the year were £2.8million (2017: £4.3million). Net assets at the year end were £123.5million (2017: £121.4million). Within net assets, cash and short-term liquidity investments totalled £52.9million (2017: £63.8million), including £3.5million (2017: £4.2million) of cash held on behalf of third-party EIS investors.

Notwithstanding an exceptional charge of £1.1million (2017: £1.1million), being the final accrued deferred consideration in respect of the acquisition of Enterprise Ventures Group Limited ('Enterprise Ventures'), the net fair value gains combined with the reduction in net expenses contributed favourably to result in a consolidated total comprehensive profit for the year of £1.7million (2017: £1.0million). After taking account of the new Mercia shares issued just before the year end to satisfy the Enterprise Ventures' deferred consideration, net assets per share increased marginally to 40.7 pence (2017: 40.4 pence).

Acquisition of Enterprise Ventures – full payment of deferred, contingent consideration

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 position at completion which was £2.0million. The initial consideration was £9.0million, comprising £8.3million satisfied in cash on completion and £0.7million satisfied by the issue of 1,645,711 initial consideration shares at a price of 42.0 pence per share.

Deferred consideration of up to £2.0million would also be payable, contingent upon Enterprise Ventures securing at least £80.0million of net new third-party fund mandates during the two-year period post completion. Payment of the deferred consideration to each vendor was also conditional upon their continuing employment with Enterprise Ventures on the second anniversary of completion, being 9 March 2018. To the extent payable, the deferred consideration would be satisfied by the issue of new Mercia Ordinary shares.

Enterprise Ventures significantly outperformed this target, having been awarded £178.0million in net new fund mandates during the two-year period, which has been a very positive outcome for the Group. Mercia subsequently deducted, and has settled, the vendors' income tax and employees' national insurance liabilities arising from their entitlement to the deferred consideration. The net deferred consideration was settled by the issue of 2,707,475 Ordinary shares at a price of 39.9 pence per share and the new shares were admitted to trading on AIM on 29 March 2018.

Goodwill and acquired intangible assets

The year end consolidated balance sheet includes goodwill of £10.3million (2017: £10.3million) and acquired intangible assets of £0.9million (2017: £1.2million). £7.9million (2016: £7.9million) 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 £301,000 (2017: £301,000) in the consolidated statement of comprehensive income represents the amortisation for the year ended 31 March 2018.

"Mercia continues to have strong liquidity and a growing investment portfolio from which to drive future increases in net assets.

Summarised consolidated statement of comprehensive income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revenue	10,197	6,660
Other administrative expenses	(10,633)	(9,143)
Net expenses	(436)	(2,483)
Realised gains on disposal of investments	871	839
Fair value movements in investments	2,823	4,268
Share-based payments charge	(497)	(395)
Amortisation of intangible assets	(301)	(301)
Operating profit before exceptional item	2,460	1,928
Exceptional item	(1,125)	(1,125)
Finance income	274	186
Taxation	54	54
Profit and total comprehensive income for the financial year	1,663	1,043
Basic and diluted earnings per Ordinary share (pence)	0.55	0.47

Revenue

Total revenue of £10,197,000 (2017: £6,660,000) comprises fund management fees, initial management fees from new investments, investment director monitoring fees and sundry business services income. The Group also benefitted from both one-off existing fund performance fees and new fund closing fees totalling £1,233,000 (2017: £541,000).

Other administrative expenses

Total other administrative expenses of £10,633,000 (2017: £9,143,000) consisted predominantly of all staff related and office, marketing and professional adviser costs.

Net expenses

Net expenses of £436,000 (2017: £2,483,000) represents total revenue less all staff and administrative expenses. The small difference between net expenses and net operating cash outflow of £442,000 (2017: cash inflow of £2,843,000), demonstrates that negligible cash is being tied up in working capital.

Realised gains on disposal of investments

During the year, realised gains of £871,000 (2017: £839,000) arose on the disposal of one (2017: two) of the Group's direct investments, being Science Warehouse, plus the recognition of the final proceeds due from the sale of Allinea Software, which had been sold in December 2016.

Fair value movements in investments

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of investments	8,699	8,800
Unrealised losses on the revaluation of investments	(5,876)	(4,532)
Net fair value gain	**2,823**	4,268

For the year as a whole, unrealised fair value gains arose in nine (2017: seven) of the Group's 26 (2017: 24) direct investments. The largest fair value gain was Oxford Genetics which accounted for £4,394,000 of the total. There were nine (2017: six) fair value decreases, the largest being £2,459,000 for Concepta.

Share-based payments charge

The £497,000 (2017: £395,000) non-cash charge arises from the issue of share options to Executive Directors and other employees of the Group ranging from the date of the IPO to 31 March 2018.

Amortisation of intangible assets

The amortisation charge of £301,000 (2017: £301,000) represents the amortisation of the acquired intangible assets of Enterprise Ventures for the year ended 31 March 2018.

Exceptional item

As referred to in the narrative above on page 39 and in note 8 of the consolidated financial statements, deferred consideration of £1,125,000 in respect of the acquisition of Enterprise Ventures has been accounted for in the consolidated statement of comprehensive income as an exceptional item. This represents the final 50% of the total deferred consideration and associated employer's national insurance, the other 50% having already been recognised as an exceptional charge in the financial year ended 31 March 2017.

Finance income

Finance income of £274,000 (2017: £186,000) was predominantly interest receivable earned on the Group's cash and short-term liquidity investments.

Taxation

The tax credit of £54,000 (2017: £54,000) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset which arose on the acquisition of Enterprise Ventures.

Balance sheet and cash flows

Net assets at the year end of £123,470,000 (2017: £121,354,000) 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.

Direct investment portfolio

During the year Mercia's direct investment portfolio grew to £66,070,000 (2017: £52,028,000). The table below lists the Group's investments by value as at 31 March 2018, including a breakdown of the net cash invested during the year, investment realisation, fair value movements for the year and the equity percentage of each company owned.

	Net investment value As at 1 April 2017 £'000	Net cash invested Year to 31 March 2018 £'000	Investment realisation Year to 31 March 2018 £'000	Fair value movement Year to 31 March 2018 £'000	Net investment value As at 31 March 2018 £'000	Percentage held As at 31 March 2018 %
nDreams Ltd	10,979	2,000	–	–	12,979	45.6
Oxford Genetics Ltd	2,196	2,500	–	4,394	9,090	40.6
Warwick Audio Technologies Ltd	2,791	1,800	–	1,561	6,152	64.0
Ton UK Ltd t/a Intelligent Positioning	2,500	500	–	1,216	4,216	28.8
Intechnica Ltd	–	3,750	–	271	4,021	27.9
Medherant Ltd	650	2,500	–	303	3,453	31.9
Impression Technologies Ltd	1,500	1,520	–	87	3,107	26.6
VirtTrade Ltd	1,538	1,000	–	–	2,538	28.4
PsiOxus Therapeutics Ltd	2,377	–	–	–	2,377	1.5
Smart Antenna Technologies Ltd	2,259	450	–	(561)	2,148	28.0
Edge Case Games Ltd	2,310	1,500	–	(1,810)	2,000	21.2
The Native Antigen Company Ltd	1,141	23	–	778	1,942	32.7
LM Technologies Ltd	1,770	100	–	43	1,913	41.4
Aston EyeTech Ltd t/a Eyoto	–	1,750	–	–	1,750	18.7
Crowd Reactive Ltd	1,500	150	–	–	1,650	28.3
sureCore Ltd	1,500	–	–	–	1,500	23.0
Concepta PLC	3,400	365	–	(2,459)	1,306	18.2
Faradion Ltd	1,299	–	–	–	1,299	13.6
Soccer Manager Ltd	1,599	–	–	(400)	1,199	31.6
Voxpopme Ltd	–	1,000	–	–	1,000	12.3
Science Warehouse Ltd	9,913	–	(9,913)	–	–	–
Other direct investments	806	224	–	(600)	430	n/a
Totals	**52,028**	**21,132**	**(9,913)**	**2,823**	**66,070**	**n/a**

Direct investment realisations

Mercia is focused on creating shareholder value through the investment in, development of and at the appropriate time, exit from (predominantly through trade sales) its direct investments. Although the Group's direct investment portfolio is still at a relatively early stage, one successful cash realisation – and Mercia's third to date – was completed during the year under review. In March 2018 Mercia Technologies sold its 62.6% stake in Science Warehouse for a total cash consideration of £10,523,000 (net of transaction expenses), recognising a realised gain of £610,000 compared with the holding value of £9,913,000 at the date of disposal. The sale represents a return to Mercia of 14.8% on its original investment cost of £9,163,000.

Cash and short-term liquidity investments

At the year end, Mercia had total cash and short-term liquidity investments of £52,908,000 (2017: £63,829,000) comprising cash of £42,908,000 (2017: £28,829,000) and short-term liquidity investments of £10,000,000 (2017: £35,000,000), including £3,473,000 (2017: £4,228,000) of cash held on behalf of third-party EIS investors. 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 three and six months) were spread across five leading United Kingdom banks.

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Opening cash and short-term liquidity investments	63,829	30,932
Net cash (used in)/generated from operating activities	(442)	2,843
Net cash used in direct and other investing activities	(10,479)	(8,696)
Issued share capital	–	40,000
Share issue costs charged to share premium account	–	(1,250)
Cash and short-term liquidity investments at the year end	**52,908**	63,829

The overall positive progress of the direct investment portfolio together with the Group's significant cash reserves, plus a continued focus on net expense minimisation, provides Mercia Technologies with a strong financial platform from which to continue to drive growth in net assets and with it, NAV per share.

Martin Glanfield
Chief Financial Officer
29 June 2018

STRONG TALENTED TEAM

Average number of employees

68

2017: 59

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 is therefore 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 its employees. Mercia does not differentiate on grounds of gender, age, ethnicity, sexual orientation, religion or physical ability. For the year ended

31 March 2018, the Group employed an average of 68 (2017: 59) staff, including its Board of seven (2017: eight) Directors. A breakdown of employees by gender is shown in the graphic on this page.

Given the nature of its 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. During the year Mercia established a cycle to work scheme in which all employees are eligible to participate.

Events after the balance sheet date

Other than the continuing completion of approved direct investments, the opening of an office in Newcastle and group-wide staff recruitment, the latter mainly to support and deploy recent new fund mandate wins, there have been no material investment related events since the balance sheet date.

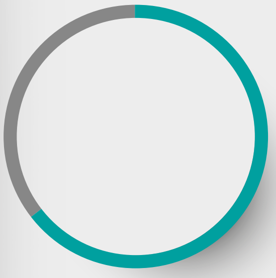
On 17 April 2018 Mercia Technologies PLC announced the appointment of Julian Viggars as a Director and Chief Investment Officer and on 12 June 2018, the appointment of Caroline Plumb OBE as an additional Non-executive Director.

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 2018

EMPLOYEE DIVERSITY



	No.
Male	44
Female	24

At the heart of all successful businesses are balanced teams. Mercia Technologies PLC's Board includes Non-executive Directors with proven listed company and corporate growth success, combining shareholder value creation with good corporate governance at their core. Mercia's three Executive Directors have a highly complementary skill set, which is essential to realise the growth potential of the Mercia Model.

Dr Mark Payton
Chief Executive Officer

Mark is the co-founder of Mercia. He has extensive venture investment experience and led the sale of Hybrid Systems (to Myotec) to create PsiOxus Therapeutics Ltd, Warwick Effect Polymers (to Polytherics) to create Abzena plc and led the founding investment in Allinea Software Ltd. Prior to Mercia, Mark played a leading role within Oxford University Innovation ("OUI" – the technology transfer operation of the University of Oxford), spinning out BioAnalab, Oxford Immunotec, Oxitec and Natural Motion – three of which were latterly sold and one listed successfully on NASDAQ. Following his time at OUI Mark was the vice president corporate development at Oxxon Therapeutics Inc, prior to its sale to Oxford BioMedica plc. He gained his PhD jointly between the University of Oxford and the University of London (King's College). Mark also has an MBA from the University of Warwick, is a Sainsbury's Management Fellow for Life Sciences and was awarded the 2015 EY Entrepreneur of the year (regional and national).

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 £129.0million 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. He 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. Martin has an honours degree in business from Aston University.

Julian Viggars
Chief Investment Officer

Julian joined Mercia through the 2016 acquisition of Enterprise Ventures, which he joined in 2004 and was head of technology investments at the time of its acquisition. He has over 20 years of venture capital experience, including the successful listings of companies such as Blue Prism Group plc and Xeros Technology Group plc. Julian leads the equity investment team as well as managing the pipeline of Mercia's future Emerging Stars. Alongside his deep knowledge of the technology sector, Julian is Fund Manager for the Northern Powerhouse Investment Fund ("NPIF"), the RisingStars Growth Funds and the Finance Yorkshire Seedcorn Fund, which together include the successful quoted businesses Blue Prism Group plc, Xeros Technology Group plc, and OptiBiotix Health plc, amongst others. Julian played a leading role in securing the managed funds contracts awarded by the BBB and North East Fund Ltd. Julian has a geology with chemistry degree from the University of Southampton and qualified as a Chartered Accountant with accountants Smith & Williamson.

Susan Searle
Non-executive Chair

Having been Non-executive Deputy Chair of Mercia Technologies at the time of its IPO in December 2014, Susan was elected Non-executive Chair in May 2016. Previously, Susan served as the chief executive officer of Imperial Innovations Group plc (now part of IP Group plc) from January 2002 to July 2013. At Imperial Innovations Group plc, Susan led funding rounds totalling c.£250.0million and during her tenure, the group invested £121.0million in a portfolio of healthcare, engineering and software businesses. Prior to that, 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 has an MA in chemistry from Oxford University.

Ian Metcalfe
Senior Independent Director

Ray Chamberlain
Non-executive Director

Dr Jonathan Pell
Non-executive Director

Caroline Plumb OBE
Non-executive Director

Ian is a qualified solicitor who retired as managing partner of international law firm Wragge & Co in 2014 after eight 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. In addition, Ian is a director and chair of Commonwealth Games England, a non-executive director of the global waste management group TRRG Holdings Ltd, a merger of Dutch based Terberg Environmental and Spanish based Ros Roca Environment, and a non-executive director of Arena Events Group plc, which provides temporary seating for sporting, commercial and cultural occasions around the world. A double rugby blue, Ian represents Cambridge University on the RFU Council. Ian has an MA in law from Cambridge University and his appointment as Mercia's Senior Independent Director in January 2017 recognised the continuing development and scale of the Group.

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 £129.0million 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, moved to a non-executive position in May 2016.

Jonathan brings extensive experience in the technology sector, originally in both finance director and chief executive roles and latterly in investing in and helping to scale up technology ventures. Having qualified as a Chartered Accountant at PwC, Jonathan gained significant executive experience firstly in senior finance positions at Convergys Corporation (NYSE - CVG), Geneva Technology Ltd, Thomas Cook Retail Ltd and Semitool Inc. He then became CEO at Datanomic Ltd, where he oversaw a twenty-fold increase in the company's global customer base and compound revenue growth of 105% over a four year period, before being purchased by Oracle Inc (NYSE - ORCL) in 2011. Since leaving Oracle Inc in 2012, Jonathan has founded his own early-stage technology investment vehicle, Thorium Technology Investors and currently sits on the boards of a number of young technology businesses. Jonathan has a degree in zoology with marine zoology from the University of Wales, Bangor and a PhD in cell proliferation from the University of East Anglia.

Caroline is a serial entrepreneur who previously co-founded recruitment and innovation consultancy FreshMinds with clients including Jaguar Land Rover, Vodafone and Google. She remains involved with FreshMinds as non-executive chair and is CEO of Fluidly which she founded in 2016, a venture-backed SaaS business in the fintech space. Caroline was previously an independent panel member of the £2.7billion Regional Growth Fund and currently serves as one of the Prime Minister's Business Ambassadors representing the Professional and Business Services sectors. Caroline was awarded an OBE in the 2016 Birthday Honours' list for services to business and charity. She has an MEng in engineering, economics and management from Oxford University.

SENIOR MANAGEMENT TEAM

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

Peter Dines
Chief Operating Officer and Investment Director, Head of Life Sciences & Biosciences

As a highly successful entrepreneur and investor, Peter brings 23 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 three 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 and Newtech Ortho.

Dr Mark Volanthen
Investment Director, Head of Electronics, Materials, Manufacturing/Engineering

Mark has extensive hands-on experience in growing technology businesses and has achieved a number of successful exits. He has commercial experience across a wide range of sectors, including energy, defence, instrumentation and communications and is named inventor on over 65 patents. Mark's career started as a founding employee at Kymata, which was acquired by Alcatel for $118.0million. He then held roles including managing director of oil & gas at Guralp Systems and chief executive officer at WFS Technologies and Insensys Aerospace & Defence. He sold Insensys in two transactions to Schlumberger and Moog. Mark also holds various non-executive director, chairman and advisory positions on the boards of high-growth technology businesses.

Dr Alistair Forbes
Investment Director, Head of Software & the Internet

Alistair joined the Group in 2017 and brings extensive technical and business leadership experience in software businesses to the team. He has created, built and sold start-up software businesses and held general management roles in larger companies that have attained global leadership positions in their industry sector. Alistair has extensive connections in the software industry in the UK and internationally, extending from the start-up space through scale-up businesses and into larger corporate organisations. As a private investor and adviser, he has worked both formally and informally with numerous software businesses in the UK and internationally, helping them to develop and execute their growth strategies.

Mike Hayes
Investment Director, Head of Digital & Digital Entertainment

Mike brings over 25 years' experience in interactive businesses. At multinational games company SEGA, he was CEO for Europe and America presiding over a turnover in excess of £400.0million. 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. Mike has also held senior roles at Nintendo and UK games company Codemasters.

Dr Nicola Broughton
Investment Director, Head of Universities

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 and he has played a key role in winning all of the new managed fund mandates alongside Julian Viggars. He is a chartered accountant and spent 11 years with Murray Johnstone Private Equity, followed by four years with Aberdeen Murray Johnson Private Equity as portfolio director and a member of the executive management team. He has over 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.

The Directors present their Annual Report and the audited financial statements of Mercia Technologies PLC for the year ended 31 March 2018.

Results and dividends

The profit for the year was £1,663,000 (2017: £1,043,000). The Directors do not recommend the payment of a dividend (2017: £nil).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 43 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:

Susan Jane Searle	
Dr Mark Andrew Payton	
Martin James Glanfield	
Matthew Sidney Mead	(resigned 17 April 2018)
Jonathan Brett Diggines	(resigned 26 March 2018)
Julian George Viggars	(appointed 17 April 2018)
Ian Roland Metcalfe	
Raymond Kenneth Chamberlain	
Martin James Lamb	(resigned 18 September 2017)
Dr Jonathan David Pell	(appointed 22 December 2017)
Caroline Bayantai Plumb OBE	(appointed 12 June 2018)

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 55.

Directors' indemnities

Mercia Technologies PLC has made qualifying third party indemnity provisions for the benefit of all Directors of the Company and its subsidiaries. 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 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 27 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2018, 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	88,670,000	29.2
Woodford Investment Management	74,980,042	24.7
Forward Innovation Fund[1]	33,796,193	11.1
Baillie Gifford & Co	16,524,683	5.5
Forward Nominees Limited[1]	16,481,456	5.4
NFU Mutual Insurance Society	13,860,000	4.6

1 Shareholdings connected to Ray Chamberlain

Political donations

During the year ended 31 March 2018 the Group made no political donations (2017: £nil).

Employees

The Group employed an average of 68 (2017: 59) 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 continuing expansion during the past year, human resource management encompassing recruitment, retention, communication, training and performance management continues to be an important area of focus.

The Group operates a discretionary annual bonus scheme for all of its employees with bonuses being awarded 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.

Disclosure of information to the auditor

So far as each of the persons who are Directors at the date of signing the financial statements are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

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

Approved by the Board and signed on its behalf by:

Martin Glanfield
Company Secretary
29 June 2018

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 Article 4 of the International Accounting Standards ("IAS") Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 profit 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 2018 and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

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 is a member of the Quoted Companies Alliance to further its understanding of, and adherence to, current good corporate governance practice.

The Board

As at 31 March 2018 the Board comprised seven Directors, of which three are Executives and four are Non-executives. Collectively they reflect a balance of different skills, experiences and backgrounds. The Chief Financial Officer is also the Company Secretary. During the year and since the year end there have been a number of changes to the Board's composition. On 18 September 2017 Martin Lamb resigned as a Non-executive Director and was succeeded on 22 December 2017 by Dr Jonathan Pell. Jonathan Diggines resigned as Executive Director, Funds on 26 March 2018. On 17 April 2018 Matthew Mead resigned as Chief Investment Officer, being succeeded by Julian Viggars on the same date, and on 12 June 2018 Caroline Plumb OBE was appointed as an additional Non-executive Director.

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 eight times each year. During the year to 31 March 2018 nine Board meetings occurred. Details of attendance at those Board meetings is as follows:

Director	Number of Board meetings attended
Susan Searle	9
Dr Mark Payton	8
Martin Glanfield	9
Matthew Mead	9
Jonathan Diggines	9
Ian Metcalfe	8
Ray Chamberlain[1]	7
Martin Lamb[2]	4
Dr Jonathan Pell[3]	2

1 Ray Chamberlain is entitled to appoint an alternate Director in his absence.
2 Martin Lamb attended four of the five meetings held up to the date of his resignation.
3 Dr Jonathan Pell attended both meetings 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 52 to 55 of this Annual Report. All five Non-executive Directors sit on all three 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 statutory and CASS auditors (including advising on their appointment, agreeing the scope of the audits, reviewing audit fees and reviewing the audit findings). The Audit Committee also reviews the provision of non-audit services by the external statutory auditor.

The Audit Committee will monitor the need for an internal audit function. During the year the Committee comprised Martin Lamb as Chair, until his resignation on 18 September 2017, Susan Searle, Ian Metcalfe and Ray Chamberlain. Following Martin Lamb's resignation, Susan Searle acted as interim committee Chair, being succeeded by Dr Jonathan Pell upon his appointment on 22 December 2017. Executive Directors attend by invitation. The Audit Committee met three 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 of the 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. The Committee also considers succession planning for both Executive and Non-executive Directors. During the year the Committee comprised Susan Searle as Chair, Ian Metcalfe, Ray Chamberlain and Martin Lamb up to 18 September 2017, being succeeded by Dr Jonathan Pell upon his appointment on 22 December 2017. The Nominations Committee met three times during the year and may also meet at other times if so required. All of the meetings were fully attended.

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 and custody of asset 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. The Group has also adopted the requirements of the 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 merciatech.co.uk 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 21 September 2018.

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 activities, the Directors have a reasonable expectation that the Group has adequate financial 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 2018

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 salaries, 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 2018 the Remuneration Committee comprised Ian Metcalfe as Chair, Susan Searle, Ray Chamberlain, Martin Lamb (up to his resignation on 18 September 2017) and Dr Jonathan Pell (from the date of his appointment on 22 December 2017). The Remuneration Committee meets at least twice a year and otherwise as required. During the year the Committee met eight times formally, with five of those meetings being fully attended, and on other occasions on an 'as required' basis.

Remuneration policy

The Remuneration Committee believes that the success of the Group depends, in part, on the performance of the Executive Directors and senior 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 through successful syndicated investment in, and subsequent exit from, technology-based companies.

Accordingly, the Committee seeks to provide a fair, balanced, competitive and affordable remuneration package for its Executive Directors and staff, while ensuring that a significant proportion of the total remuneration of each Executive Director is linked to the performance of the Group, against a set of pre-agreed and largely financial objectives. 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 plans. Other benefits include contributions to a defined contribution personal pension scheme, life assurance, private health insurance and permanent health insurance. Only base salaries are pensionable.

Given the Group's relatively early position in its growth cycle, there is natural tension between 'affordability' and the need to 'attract and retain talent' in what has become recognised as an attractive and competitive sector. In 2016 the Committee engaged external remuneration consultants to review executive remuneration throughout the Group. The review focused on four elements of remuneration – base salary, annual bonuses, long-term incentives and benefit 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 were endorsed by the Committee, included a recommendation that the Group adopts a policy of active remuneration review which is event rather than time driven, ie growing net asset value ("NAV") above an agreed target. More specific agreed recommendations in respect of the Executive Directors are summarised below:

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 original maximum annual bonus potential of 25% of base salary was significantly 'off market'. The review recommended that maximum bonuses of up to 100% of base salary should be capable of being earned for exceptional performance. The review also suggested that the Committee should consider deferring an element of future bonus awards into Mercia shares, to be retained for three years.

Long-term incentives – investment groups (be they listed or un-listed) typically implement carried interest plans which allocate 20% carried interest to the senior executive and investment team. Mercia's plan provides for 10% carried interest to be allocated because the Group also has a share option scheme, although the current operation of the two schemes still does not bring the senior team fully in line with market. The review therefore recommended that for at least the three years to 31 March 2019 annual share option awards be made to Executive Directors at the level of 1 x base salary.

Having carefully considered these and other recommendations, the Committee adopted them as the Group's performance-focused remuneration policy. The Committee also agreed to a maximum bonus of 100% of base salary for exceptional performance for 2017/18, with the bonus award payable in cash up to 50% of base salary and the remainder in a form of deferred shares. The agreed criteria for determining the ultimate 2017/18 award were:

1. Material portfolio fair value growth/realised gains – 30% weighting
2. Progress by six leading direct investments in terms of management and board strength, revenue targets met, commercial progress, operating within budget – 30% weighting
3. Building a sustainable funnel of future Emerging Stars and meeting fund mandate investment targets – 20% weighting
4. Subjective measure of performance by each Executive Director reflecting their specific areas of responsibility and influence – 20% weighting.

Having considered the performance of the Group and the Executive Directors against each of these criteria, the Committee awarded bonuses to each Executive Director at a level of 41.5% of their base salary for 2017/18.

The Committee has also agreed to a maximum bonus of 100% of base salary for exceptional performance for 2018/19, with the bonus award also payable in cash up to 50% of base salary and the remainder in deferred shares. The agreed criteria for determining the ultimate 2018/19 award are:

1. Material portfolio fair value growth/realised gains – 30% weighting
2. Progress by six leading direct investments in terms of management and board strength, revenue targets met, commercial progress, operating within budget – 30% weighting
3. At least one cash realisation, revenue and net expenses targets – 10% weighting
4. Managed funds target of £12.0million of new SEIS/EIS capital raised and at least 80% of fund investment targets achieved – 10% weighting
5. Subjective measure of performance by each Executive Director reflecting their specific areas of responsibility and influence, including Mercia's cultural values – 20% weighting.

The Committee will continue to monitor the affordability and suitability of the Group's remuneration policy and performance criteria and will conduct a review of current market best practice in respect of long-term incentives in Autumn 2018.

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
Dr Mark Payton	15 December 2014	235	6 months
Martin Glanfield	1 October 2014	200	6 months
Julian Viggars	17 April 2018	200	6 months
Susan Searle	15 December 2014	75	3 months
Ian Metcalfe	15 December 2014	46	3 months
Ray Chamberlain	15 December 2014	40	3 months
Dr Jonathan Pell	22 December 2017	40	3 months
Caroline Plumb OBE	12 June 2018	40	3 months

Equity-based incentive schemes

The Committee has implemented two 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 two 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 50.00 pence, which was agreed with HMRC as not less than the market value of an Ordinary share for the purpose of making the first grants. Initial Options were conditionally granted on 8 December 2014 and became unconditional on Admission. Awards are subject to a performance condition. The condition would have been satisfied if the total shareholder return (being the increase in the price of an Ordinary share from a 50.00 pence base value plus any dividend yield), from Admission to the third anniversary of Admission, was not less than 9.55 pence (being 6% compound per annum) ie a share price at the exercise date of at least 59.55 pence.

The performance condition was not satisfied on the third anniversary of Admission. However, prior to that date, having considered the matter (including discussions with the Group's largest shareholders) and pursuant to the rules of the Mercia CSOP, the Remuneration Committee resolved to vary the vesting period in which the performance condition of the Options had to be satisfied. Accordingly, the Options will now vest on the fifth anniversary of Admission if the total shareholder return from Admission to the fifth anniversary of Admission is not less than 9.55 pence ie a share price at the exercise date of at least 59.55 pence. The Remuneration Committee considers that this is the most appropriate way of continuing to align the interests of the Executive Directors with the shareholders of the Company, whilst continuing to provide a strong incentive, thereby facilitating the retention of high calibre individuals.

Further options have been issued, in accordance with the recommendations of the 2016 remuneration review, in subsequent years to new joiners and in the year to 31 March 2018 additional options were also granted to the Executive Directors. The total number of options in issue at the year end was 11,702,000 (2017: 8,715,000).

The options subsequently granted to the Executive Directors and new staff have the same performance and exercise criteria, save that for options granted from July 2016 onwards, the performance condition has been amended to a requirement that the total shareholder return from the date of grant to the third anniversary is not less than 6% (compound) per annum, using a volume-weighted average share price for the 90 days prior to the third anniversary of the date of grant.

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 closing 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 was 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 is 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 payable		Pension contributions		Taxable benefits		Performance related bonus		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Executive Directors										
Dr Mark Payton	212	204	23	22	3	2	88	71	326	299
Martin Glanfield	189	185	21	20	4	2	78	65	292	272
Matthew Mead[1]	219	214	–	–	3	2	83	67	305	283
Jonathan Diggines[2]	191	187	–	–	1	1	79	66	271	254
Non-executive Directors										
Susan Searle	65	65	–	–	–	–	–	–	65	65
Ian Metcalfe	46	40	–	–	–	–	–	–	46	40
Ray Chamberlain	40	40	–	–	–	–	–	–	40	40
Martin Lamb[3]	19	40	–	–	–	–	–	–	19	40
Dr Jonathan Pell[4]	10	–	–	–	–	–	–	–	10	–
	991	975	44	42	11	7	328	269	1,374	1,293

Mercia pays reasonable expenses incurred by its Non-executive Directors and may settle any tax and National Insurance due on such payments where relevant.

1 Matthew Mead resigned on 17 April 2018.
2 Jonathan Diggines resigned on 26 March 2018. On 29 March 2018 he received 1,092,804 Ordinary shares for the deferred consideration payable to him in respect of the acquisition of Enterprise Ventures Group Limited. The cost of the deferred consideration payable has been treated as an exceptional item in the consolidated statement of comprehensive income and disclosed in note 8 of the consolidated financial statements.
3 Martin Lamb resigned on 18 September 2017.
4 Dr Jonathan Pell was appointed on 22 December 2017.

Share options

The number of options over Mercia Technologies' Ordinary shares held by Directors as at 31 March 2018 is set out below:

	Number of options				
	As at 31 March 2018	As at 31 March 2017	Date of grant	Exercise price	Period of exercise
Executive Directors					
Dr Mark Payton	1,000,000	1,000,000	8 Dec 2014	50.00p	18 Dec 2019 to 7 Dec 2024[1]
	400,000	400,000	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
	400,000	–	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[4]
Martin Glanfield	1,000,000	1,000,000	8 Dec 2014	50.00p	18 Dec 2019 to 7 Dec 2024[1]
	400,000	400,000	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
	400,000	–	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[4]
Matthew Mead[5]	42,857	42,857	31 Jul 2015	70.00p	31 Jul 2018 to 30 Jul 2025[2]
	957,143	957,143	31 Jul 2015	57.50p	31 Jul 2018 to 30 Jul 2025[2]
	400,000	400,000	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
	400,000	–	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[4]
Jonathan Diggines[6]	400,000	400,000	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
	400,000	–	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[4]

1 The options will be exercisable as to one-third from 18 December 2019, one-third from 18 December 2020 and the remaining one-third from 18 December 2021.
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.
3 The options will be exercisable as to one-third from 27 July 2019, one-third from 27 July 2020 and the remaining one-third from 27 July 2021.
4 The options will be exercisable as to one-third from 24 July 2020, one-third from 24 July 2021 and the remaining one-third from 24 July 2022.
5 Matthew Mead resigned on 17 April 2018.
6 Jonathan Diggines resigned on 26 March 2018.

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 2018	Number of Ordinary shares as at 29 June 2018
Susan Searle	1,097,388	1,097,388
Dr Mark Payton	6,655,472	6,655,472
Martin Glanfield	293,369	293,369
Matthew Mead[1]	75,730	n/a
Jonathan Diggines[2]	n/a	n/a
Julian Viggars[3]	n/a	424,325
Ian Metcalfe	132,609	132,609
Ray Chamberlain[4]	60,824,766	60,824,766
Martin Lamb[5]	n/a	n/a
Dr Jonathan Pell[6]	–	–
Caroline Plumb OBE[7]	n/a	–

1 Matthew Mead resigned on 17 April 2018.
2 Jonathan Diggines resigned on 26 March 2018.
3 Julian Viggars was appointed on 17 April 2018.
4 Ray Chamberlain is personally interested in 6,149,752 Ordinary shares. The remaining 54,675,014 Ordinary shares are held by the Forward Innovation Fund (34,072,336 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 and close associates, including Ray Chamberlain).
5 Martin Lamb resigned on 18 September 2017.
6 Dr Jonathan Pell was appointed on 22 December 2017.
7 Caroline Plumb OBE was appointed on 12 June 2018.

Ian Metcalfe
Chair of the Remuneration Committee
29 June 2018

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Mercia Technologies PLC ('the Company') and its subsidiaries ('the Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company and the Group 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 42.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and 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, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: ▪ Valuation of investments
Materiality	The materiality that we used for the Group financial statements was £2.1million, which was determined on the basis of 3% of the Group's net assets less cash and cash equivalents and short-term liquidity investments.
Scoping	100% of the Group revenue, profit after taxation and net assets was audited to full or specific scope audit procedures.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: ▪ the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or ▪ the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments

Key audit matter description	As disclosed by the Directors as a critical accounting judgement on page 70 of the Annual Report, the judgement required to determine the appropriate valuation methodology of investments is significant. The Group has investments with a net carrying value of £66.1million (2017: £52.0million). The majority of these investments have no quoted market price available. Based on the nature of the Group's investments in early-stage companies, there are often no current or short-term future earnings or positive cash flows. Therefore, it can be difficult to evaluate the probability of success or failure of commercial development or research activities that support the business models. As a result, each non-listed investment is initially carried at cost, with adjustments subsequently made to reflect changes in fair value; typically with reference to the price at which third-party transactions in the equity of that portfolio company have taken place and the Directors' fair review of the value of investment. If there is no readily available value following the 'price of recent investment' methodology, the Group considers alternative methodologies requiring the Directors to make assumptions over the timing and nature of future revenues when calculating the fair value for these investments. There is a risk with the ongoing valuation of investments since this is a highly complex area for the business and requires judgement. The movement in the fair value of the investments has a direct impact on the results recorded by the Group.
How the scope of our audit responded to the key audit matter	We assessed the appropriateness of the Directors' valuations of the investment portfolio by assessing the Directors' key judgements and assumptions, as follows: ▪ we reviewed the Directors' processes for valuing investments, which includes a detailed review by the Executive Directors and the Board as a whole and evaluated whether the valuation methodologies applied are appropriate and where applicable, appropriate alternative valuation methodologies have been considered; ▪ we engaged our valuation experts to critically assess the approach adopted by management and evaluated the valuation methodology applied in reference to the Group's own valuation policies; ▪ we visited certain investee companies each year to obtain a better understanding of their business and local management expectations; ▪ we investigated any changes in the fair value of investments and corroborated any such fair value uplifts or write-downs to supporting rationale; and ▪ we reviewed the Directors' process for valuation of each investment against the Directors' own formalised valuation process and investigated any exceptions.
Key observation	Based on these procedures, we found the judgements and assumptions used to be materially appropriate. We concluded that the overall carrying value of investments in the financial statements is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£2.1million	£2.0million
Basis for determining materiality	3% of the Group's net assets less cash and cash equivalents and short-term liquidity investments.	Materiality of £2.0million represents less than 3% of Company net assets less cash and cash equivalents and short-term liquidity investments. When determining materiality, we also considered that this materiality was appropriate for the consolidation of this set of financial statements into the Group's results.
Rationale for the benchmark applied	We determined net assets less cash and cash equivalents and short-term liquidity investments to be the most appropriate benchmark in determining materiality as this represents the most appropriate measure to assess the performance of the Group and the Company and which may directly influence decisions made by third-party investors. Net assets includes amounts of cash and short-term liquidity investments, which are significant in value. We do not deem these balances to be direct indicators of the Group's and Company's performance and growth. As such, we have determined it appropriate to adjust net assets by removing cash and short-term liquidity investments and use the resulting value as a basis of our materiality determination.	

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £42,000 for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scoping was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered all of the material balances in the consolidated statement of comprehensive income and consolidated balance sheet of the Group.

The audit of the Group and components were executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1million to £2.0million. These account for 100% of the Group's revenue, profit after taxation and net assets. Each component of the audit was subject to full scope audit procedures and an independent audit report is issued for each component's statutory financial statements. The Group has several components, all of which are in the United Kingdom. Audit work has been performed by teams from our offices in Manchester and Birmingham. Furthermore, we also audited the consolidation schedule prepared at the Group level for accuracy and completeness.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	**We have nothing to report in respect of these matters.**

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.	We have nothing to report in respect of these matters.

Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom
29 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revenue	3	10,197	6,660
Other administrative expenses		(10,633)	(9,143)
Net expenses		(436)	(2,483)
Realised gains on disposal of investments		871	839
Fair value movements in investments	4	2,823	4,268
Share-based payments charge	6	(497)	(395)
Amortisation of intangible assets	7	(301)	(301)
Operating profit before exceptional item	7	2,460	1,928
Exceptional item	8	(1,125)	(1,125)
Operating profit		1,335	803
Finance income	9	274	186
Profit before taxation		1,609	989
Taxation	10	54	54
Profit and total comprehensive income for the financial year		1,663	1,043
Basic and diluted earnings per Ordinary share (pence)	11	0.55	0.47

All results derive from continuing operations.

The format of the consolidated statement of comprehensive income has been changed to provide a more relevant presentation of the financial results of the Group. Net expenses (being total revenue less all staff and administrative expenses), has replaced the gross profit heading (being total revenue less cost of sales) reported on in previous financial periods.

The notes on pages 65 to 81 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2018

	Note	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Assets			
Non-current assets			
Goodwill	12	10,328	10,328
Intangible assets	14	885	1,186
Property, plant and equipment	15	145	151
Investments	16	66,070	52,028
Total non-current assets		77,428	63,693
Current assets			
Trade and other receivables	17	1,057	747
Short-term liquidity investments	18	10,000	35,000
Cash and cash equivalents	18	42,908	28,829
Total current assets		53,965	64,576
Total assets		131,393	128,269
Current liabilities			
Trade and other payables	19	(7,760)	(6,698)
Non-current liabilities			
Deferred taxation	20	(163)	(217)
Total liabilities		(7,923)	(6,915)
Net assets		123,470	121,354
Equity			
Issued share capital	21	3	3
Share premium	22	49,324	48,243
Other distributable reserve	23	70,000	70,000
Retained earnings		2,977	1,314
Share-based payments reserve		1,166	669
Other reserve	24	–	1,125
Total equity		123,470	121,354

The notes on pages 65 to 81 are an integral part of these financial statements.

The consolidated financial statements of Mercia Technologies PLC, registered number 09223445, on pages 61 to 81 were approved by the Board of Directors and authorised for issue on 29 June 2018. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Cash flows from operating activities:			
Operating profit		1,335	803
Adjustments to reconcile operating profit to net cash flows (used in)/generated from operating activities:			
Depreciation of property, plant and equipment	15	81	76
Realised gains on disposal of investments		(871)	(839)
Fair value movements in investments	4	(2,823)	(4,268)
Share-based payments charge	6	497	395
Amortisation of intangible assets	14	301	301
Exceptional item – deferred consideration payable	8	1,125	1,125
Working capital adjustments:			
Decrease in trade and other receivables	17	19	73
(Decrease)/increase in trade and other payables	19	(106)	5,177
Net cash (used in)/generated from operating activities		(442)	2,843
Cash flows from investing activities:			
Purchase of direct investments	16	(21,282)	(11,828)
Proceeds from the sale of direct investments		10,468	2,909
Investee company loan repayments	16	150	140
Net cash flows from direct investment activities		(10,664)	(8,779)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	15	(75)	(82)
Interest received		260	165
Decrease/(increase) in short-term liquidity investments	18	25,000	(25,000)
Net cash generated from/(used in) other investing activities		25,185	(24,917)
Net cash generated from/(used in) total investing activities		14,521	(33,696)
Cash flows from financing activities:			
Proceeds from the issue of Ordinary shares		–	40,000
Transaction costs relating to the issue of Ordinary shares		–	(1,250)
Net cash generated from financing activities		–	38,750
Net increase in cash and cash equivalents		14,079	7,897
Cash and cash equivalents at the beginning of the year		28,829	20,932
Cash and cash equivalents at the end of the year	18	42,908	28,829

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	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	Other reserve £'000 (note 24)	Total £'000
As at 1 April 2016	2	9,494	70,000	271	274	–	80,041
Profit and total comprehensive income for the year	–	–	–	1,043	–	–	1,043
Issue of share capital	1	39,999	–	–	–	–	40,000
Costs of share capital issued	–	(1,250)	–	–	–	–	(1,250)
Share-based payments charge	–	–	–	–	395	–	395
Deferred consideration payable	–	–	–	–	–	1,125	1,125
As at 31 March 2017	3	48,243	70,000	1,314	669	1,125	121,354
Profit and total comprehensive income for the year	–	–	–	1,663	–	–	1,663
Share-based payments charge	–	–	–	–	497	–	497
Deferred consideration payable (note 8)	–	–	–	–	–	1,125	1,125
Settlement of deferred consideration (note 8)	–	1,081	–	–	–	(2,250)	(1,169)
As at 31 March 2018	**3**	**49,324**	**70,000**	**2,977**	**1,166**	**–**	**123,470**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

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 England, 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 1.

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

The Group reassesses whether or not it controls a subsidiary company if facts and circumstances indicate that there are changes to one or more of the three 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.

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.

1. Accounting policies continued

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 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:

IFRS 9, 'Financial Instruments' – effective for annual periods beginning on or after 1 January 2018.

The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and introduces new guidance under three main components, being classification and measurement, impairment of financial instruments and hedge accounting. The Group assesses the potential effect of the new standard to be immaterial given that the majority of its financial assets are held at fair value through profit or loss and the impact of applying the new single expected credit loss impairment model is not expected to be significant.

IFRS 15, 'Revenue from Contracts with Customers' – effective for annual periods beginning on or after 1 January 2018.

The standard replaces existing revenue recognition guidelines including IAS 18 'Revenue', IAS 11 'Construction Contracts' and revenue related IFRICs, and introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model provides a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognised, based on the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. The Group assesses the potential effect of the new standard to be immaterial given that there is unlikely to be any change to its current revenue recognition methods.

IFRS 16, 'Leases' – effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS15 'Revenue from Contracts with Customers', is also applied.

Under IFRS 16, which replaces IAS 17 'Leases', lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The accounting for lessors will not change significantly. The Group assesses that the new standard will impact its land and buildings operating leases, as those with a term of more than 12 months will give rise to a right of use asset (the right to use the leased item), which will be amortised on a straight-line basis, and a lease liability (the obligation to make lease payments) which will be amortised using the effective interest method. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The extent of the impact will depend on the contracts in effect at the time of the adoption.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 in recognition of the work involved in each investment round, 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 usually 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 service relates.

1. Accounting policies continued

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 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.

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.

The Group primarily seeks to generate capital gains from its holdings in direct investments over the longer term but has, since its IPO in December 2014, made annual net operating losses (excluding fair value movements) from its operations from a UK tax perspective. Capital gains arising from the disposal of direct investments would ordinarily be taxed upon realisation of such investments. However, since the Group's activities are substantially trading in nature, the Directors believe that it qualifies for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying investments are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of fair value gains in those investments that meet the qualifying criteria. Gains arising on the disposal of non-qualifying investments would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time.

1. Accounting policies continued

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 five years, so as to write off the fair value of the contracts less their estimated residual 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.

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.

1. Accounting policies continued

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.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's fair value and the sum of the consideration received is recognised as a realised gain or loss on disposal of investment in profit or loss.

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 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.

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 three months. Short-term liquid investments with a maturity of over three 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 assessed that the Group has no critical accounting judgements and have identified one key source of estimation uncertainty, being fair value measurements and valuation processes, which has 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.

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 observable 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 become 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. At each reporting date the Group considers whether any changes or events subsequent to the period end 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 2018, the Group's revenue and profit 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 2018 £'000	Year ended 31 March 2017 £'000
Fund management fees	7,187	4,068
Initial management fees	1,074	748
Portfolio directors' fees	1,847	1,747
Other revenue	89	97
	10,197	6,660

4. Fair value movements in investments

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Net fair value movements in investments (note 16)	2,823	4,268

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

	Year ended 31 March 2018 Number	Year ended 31 March 2017 Number
Technology Transfer and Investment	44	40
Central functions	24	19
	68	59

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

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Wages and salaries	6,398	5,253
Social security costs	718	610
Other pension costs (note 25)	384	285
	7,500	6,148

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 54, which forms part of these financial statements.

The exceptional item disclosed in note 8 to these consolidated financial statements was payable to the extent that each of the vendors was still an employee of Enterprise Ventures Group Limited ('Enterprise Ventures') at the end of the deferred consideration period, being 9 March 2018. Accounting standards therefore require that this is included as an expense in the consolidated statement of comprehensive income.

6. Share-based payments

The Group operates share option schemes for Executive Directors and all employees of the Group. Further details are set out on pages 53 to 54 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2018 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	8 December 2014	7 December 2024	260,000	50.00p
	31 July 2015	30 July 2025	42,857	70.00p
	11 August 2015	10 August 2025	173,912	69.00p
	27 July 2016	26 July 2026	1,375,740	51.25p
	24 April 2017	23 April 2027	540,296	40.05p
	24 July 2017	23 July 2027	55,000	36.00p
	15 December 2017	14 December 2027	418,537	37.25p
Unapproved share option scheme	8 December 2014	7 December 2024	2,160,000	50.00p
	31 July 2015	30 July 2025	957,143	57.50p
	11 August 2015	10 August 2025	336,088	57.50p
	27 July 2016	26 July 2026	2,879,260	51.25p
	24 April 2017	23 April 2027	283,704	40.05p
	24 July 2017	23 July 2027	2,100,000	36.00p
	15 December 2017	14 December 2027	119,463	37.25p
			11,702,000	

Details of the share options outstanding as at 31 March 2018 and 31 March 2017 are as follows.

	Year ended 31 March 2018		Year ended 31 March 2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	8,715,000	50.16p	4,420,000	53.14p
Granted during the year	3,517,000	34.09p	4,505,000	51.02p
Forfeited during the year	(530,000)	42.95p	(210,000)	50.12p
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Share options outstanding as at 31 March	11,702,000	43.70p	8,715,000	50.16p

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
8 December 2014	50.00p	50.00p	1.0%	10 years	30%	19.84p
31 July 2015	70.00p	70.00p	1.0%	10 years	30%	27.78p
31 July 2015	57.50p	70.00p	1.0%	10 years	30%	32.24p
11 August 2015	69.00p	69.00p	1.0%	10 years	30%	27.38p
11 August 2015	57.50p	69.00p	1.0%	10 years	30%	31.45p
27 July 2016	51.25p	51.25p	1.0%	10 years	30%	20.35p
24 April 2017	40.05p	40.05p	1.0%	10 years	30%	15.89p
24 July 2017	36.00p	36.00p	1.0%	10 years	30%	14.28p
15 December 2017	37.25p	37.25p	1.0%	10 years	30%	14.78p

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 £497,000 (2017: £395,000).

7. Operating profit before exceptional item

Operating profit before exceptional item is stated after charging:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Other administrative expenses:		
Staff costs (note 5)	7,500	6,148
Marketing, professional adviser, travel and entertainment and other administration costs	2,612	2,477
Depreciation of property, plant and equipment (note 15)	81	76
Operating lease costs	310	329
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	39	34
– Fees payable to the Company's auditor for other services:		
– The auditing of accounts of subsidiaries of the Company	58	54
– CASS related assurance services	29	25
– All other non-audit services	4	–
Total other administrative expenses	10,633	9,143
Share-based payments charge (note 6)	497	395
Amortisation of intangible assets (note 14)	301	301
Total administrative expenses	11,431	9,839

8. Exceptional item

The exceptional item for the year ended 31 March 2018 represents the remaining 50% of the total deferred consideration payable in respect of the acquisition of Enterprise Ventures, which was contingent upon it securing at least £80,000,000 of net new third-party fund mandates during the two-year period following its acquisition and each of the vendors' continuing employment with Enterprise Ventures on the second anniversary of completion, being 9 March 2018. Enterprise Ventures significantly outperformed this target and the deferred consideration became payable to those vendors still employed by the Group. Mercia subsequently deducted, and has settled, the vendors' income tax and employees' national insurance liabilities arising from their entitlement to the deferred consideration. The net deferred consideration of £1,081,000 was settled by the issue of 2,707,475 Ordinary shares at a price of 39.9 pence per share and the new shares were admitted to trading on AIM on 29 March 2018. The prior year exceptional item represents the first 50% of the total deferred consideration payable.

9. Finance income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest income arising from:		
Cash and cash equivalents	70	102
Short-term liquidity investments	161	30
Investee company loans	43	32
Other interest receipts	–	22
Total interest receivable	274	186

10. Taxation

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Corporation tax:		
Current year	–	–
Deferred tax	54	54
	54	54

The UK standard rate of corporation tax is 19% (2017: 20%). There is no current tax charge in the year (2017: £nil). The deferred tax credit of £54,000 (2017: £54,000) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

10. Taxation continued

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit before taxation	**1,609**	989
Tax at the standard rate of corporation tax in the UK of 19% (2017: 20%)	306	198
Effects of:		
Income not subject to tax	(802)	(1,026)
Expenses not deductible for tax purposes	(647)	(457)
Other timing differences not recognised	1,143	1,285
Unwinding of deferred tax liability	54	54
Total tax credit	**54**	54

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these consolidated financial statements.

As at 31 March 2018, a deferred tax liability of £163,000 (2017: £217,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures. A deferred tax asset of £4,163,000 (2017: £3,741,000) for cumulative unrelieved management expenses and other tax losses has not been recognised due to uncertainty regarding its future recoverability.

11. Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year by the weighted average number of Ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing the profit for the financial year 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 earnings per share calculations on a weighted average basis for the year. The profit and weighted average number of shares used in the calculations are set out below.

	Year ended 31 March 2018	Year ended 31 March 2017
Earnings per Ordinary share		
Profit for the financial year (£'000)	1,663	1,043
Weighted average number of Ordinary shares (basic and diluted) ('000)	300,617	223,890
Earnings per Ordinary share basic and diluted (pence)	**0.55**	0.47

12. Goodwill

	£'000
Cost	
As at 1 April 2016	10,328
Additions	–
As at 31 March 2017	10,328
Additions	–
As at 31 March 2018	**10,328**

Included in goodwill is £7,873,000 which arose on the acquisition of the entire issued share capital of 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.

Goodwill is impairment tested annually on the basis of a fair value less costs to sell methodology in determining the recoverable amount of the cash generating unit ("CGU") to which it is associated, being the only CGU. The fair value of the goodwill was established in recent market transactions at the point that it was created and management have assessed the relative performance of the CGU compared to the assumptions at that time to determine its current fair value. Given the actual and forecasted increase in expectations for the results of the CGU since acquisition, the Directors have determined that the relevant fair value has increased and therefore there is no impairment. The key assumptions in this forecasted increase in results are the increase in fund management revenue and consequential increase in cash inflows.

Given the basis of the fair value techniques described above, this fair value would fall into a Level 3 hierarchy if it were recognised as a financial instrument under IFRS 13.

13. Subsidiaries

The Group consists of Mercia Technologies PLC and its subsidiary undertakings. Note 33 to the Company's financial statements lists details of the Company's subsidiary undertakings.

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 those the assets will flow to the Group and the fair value of the assets can be measured reliably.

	£'000
Cost	
As at 1 April 2016	1,504
Additions	–
As at 31 March 2017	1,504
Additions	–
As at 31 March 2018	**1,504**
Accumulated amortisation	
As at 1 April 2016	17
Charge for the year	301
As at 31 March 2017	318
Charge for the year	301
As at 31 March 2018	**619**
Net book value	
As at 31 March 2017	1,186
As at 31 March 2018	**885**

15. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2016	36	59	219	314
Additions	4	3	75	82
As at 31 March 2017	40	62	294	396
Additions	–	6	69	75
As at 31 March 2018	**40**	**68**	**363**	**471**
Accumulated depreciation				
As at 1 April 2016	1	24	144	169
Charge for the year	4	11	61	76
As at 31 March 2017	5	35	205	245
Charge for the year	5	13	63	81
As at 31 March 2018	**10**	**48**	**268**	**326**
Net book value				
As at 31 March 2017	35	27	89	151
As at 31 March 2018	**30**	**20**	**95**	**145**

16. Investments

The net change in the value of investments for the year is £14,042,000 (2017: £13,885,000).

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 from disposals and the direct investment fair value movements.

	£'000
As at 1 April 2017	52,028
Investments made during the year	21,282
Disposals made during the year	(9,913)
Investee company loan repayments	(150)
Unrealised gains on the revaluation of investments	8,699
Unrealised losses on the revaluation of investments	(5,876)
As at 31 March 2018	**66,070**

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 2018 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	64.0	4,151	(1,059)	30 September 2017
nDreams Limited	45.6	2,150	(2,268)	31 March 2017
LM Technologies Limited	41.4	748	(35)	31 December 2017
Oxford Genetics Limited	40.6	828	(1,244)	30 April 2017
The Native Antigen Company Limited	32.7	1,170	477	30 September 2017
Medherant Limited	31.9	1,265	(707)	31 March 2017
Soccer Manager Limited	31.6	(996)	(1,376)	31 October 2017
Ton UK Limited t/a Intelligent Positioning	28.8	537	(1,014)	31 August 2016
VirtTrade Limited	28.4	(581)	(757)	31 August 2017
Crowd Reactive Limited	28.3	562	(607)	31 December 2016
Nightingale-EOS Limited	28.3	1,064	(20)	31 July 2017
Smart Antenna Technologies Limited	28.0	466	(1,265)	31 March 2017
Impression Technologies Limited	26.6	4,165	(1,867)	31 December 2017
Intechnica Limited	27.9	(365)	(1,446)	31 March 2017
sureCore Limited	23.0	344	(1,545)	30 June 2017
Edge Case Games Limited	21.2	2,432	(376)	30 September 2017

17. Trade and other receivables

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Current:		
Trade and other receivables	572	381
Less: provision for impairment of trade receivables	(234)	(174)
Net trade receivables	338	207
Other receivables	318	4
Prepayments and accrued income	401	536
	1,057	747

Other receivables includes £316,000 (2017: £nil) in respect of the final proceeds due from the sale of Allinea Software, which was disposed of in December 2016, and from Science Warehouse, which was disposed of in March 2018.

17. Trade and other receivables continued

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

	Gross £'000	Impairment £'000
Not past due	163	–
Past due 0-30 days	56	(9)
Past due 31-60 days	69	(24)
Past due 61-90 days	19	(1)
Past due more than 91 days	265	(200)
	572	(234)

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

	£'000
As at 1 April 2017	174
Provisions made	138
Amounts written off during the year	(78)
As at 31 March 2018	234

The impairment provision at 31 March 2018 relates to trade receivables primarily from portfolio companies in the managed funds. 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 £138,000 (2017: £67,000) has been recorded against revenue 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 2018 £'000	As at 31 March 2017 £'000
Cash at bank and in hand	42,908	28,829
Total cash and cash equivalents	42,908	28,829
Total short-term liquidity investments	10,000	35,000

19. Trade and other payables

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Trade payables	241	225
Tax and social security	1,377	159
Other payables	3,714	4,335
Accruals and deferred income	2,428	1,979
	7,760	6,698

Tax and social security includes £1,169,000 (2017: £nil) in respect of income tax and national insurance liabilities arising from the deferred consideration received by the Enterprise Ventures' vendors.

Other payables includes £3,473,000 (2017: £4,228,000) of cash held on behalf of third-party EIS investors.

20. Deferred taxation

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Recognition of deferred tax liability	163	217

As at 31 March 2018 a deferred tax liability of £163,000 (2017: £217,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

21. Issued share capital

	As at 31 March 2018		As at 31 March 2017	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year	300,602,232	3	213,645,711	2
Issue of share capital during the year	2,707,475	–	86,956,521	1
As at the end of the year	303,309,707	3	300,602,232	3

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 42.0 pence as part of the initial consideration for the acquisition of Enterprise Ventures. These shares were admitted to trading on AIM on 16 March 2016.

On 16 February 2017 the Group issued 86,956,521 new Ordinary shares of £0.00001 each at a price of 46.0 pence per share via a Placing which raised £40,000,000 (before share issue costs).

On 26 March 2018 2,707,475 new Ordinary shares of £0.00001 each were issued at a price of 39.9 pence in settlement of the deferred consideration payable in respect of the acquisition of Enterprise Ventures (note 8). These new shares were admitted to trading on AIM on 29 March 2018.

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

22. Share premium

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
As at the beginning of the year	48,243	9,494
Premium arising on the issue of Ordinary shares	1,081	39,999
Cost of share capital issued	–	(1,250)
As at the end of the year	49,324	48,243

The premium on the issue of Ordinary shares in the year arises from the issue of 2,707,475 new Ordinary shares of £0.00001 each issued at a price of 39.9 pence on 26 March 2018, in settlement of the deferred consideration for the acquisition of Enterprise Ventures.

The premium on the issue of Ordinary shares in the prior year arises from the placing of 86,956,521 new Ordinary shares of £0.00001 each issued at a price of 46.0 pence on 16 February 2017.

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. Other reserve

The other reserve balance of £nil (2017: £1,125,000) reflects the settlement of the deferred consideration in respect of the acquisition of Enterprise Ventures (note 8), satisfied by the issue of 2,707,475 Mercia Technologies' Ordinary shares.

25. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2018 was £384,000 (2017: £285,000). As at 31 March 2018, contributions amounting to £20,000 (2017: £18,000) had not yet been paid over to the plans and are recorded in other payables (note 19).

26. 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 2018		As at 31 March 2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	314	14	193	9
In the second to fifth years inclusive	800	14	43	3
Over five years	319	–	–	–
	1,433	28	236	12

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 approximately seven years now remaining. Outstanding commitments as at 31 March 2017 for future minimum lease payments in respect of the head office premises were calculated to a three-year break clause dated December 2017 which was not triggered. The typical lease term for office equipment is three years.

27. 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 15 to 19 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 end:

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Trade and other receivables	656	211
Financial assets at fair value through profit or loss	66,070	52,028
Short-term liquidity investments	10,000	35,000
Cash and cash equivalents	42,908	28,829
	119,634	116,068

Liabilities per the balance sheet as at the year end:

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Trade and other payables (excluding accruals, tax and social security)	3,955	4,560

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.

27. Financial risk management continued

Liquidity risk

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

Short-term liquidity investments comprise deposits with a maturity of over three 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 Mercia Fund Management and Enterprise Ventures funds and from its directly invested portfolio companies.

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 2018. The table in note 16 of these consolidated financial statements sets out the movement in the balance sheet value of investments from the start to the end of the year.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets:				
Financial assets at fair value through profit or loss ("FVTPL")	1,306	–	64,764	66,070

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 2018, the Group had one direct investment listed on AIM (Concepta PLC) and this has been classified as Level 1 and valued at its bid price as at 31 March 2018.

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 one 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 2018 £'000
Listed investments	1	1,306
Price of recent funding round	3	45,017
Cost	3	9,572
Enterprise value	3	4,318
Price of recent funding round or cost adjusted for impairment	3	5,857
		66,070

27. Financial risk management continued

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. One 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.

28. 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 54. Directors' shareholdings in the Group are disclosed on page 55 of the Remuneration Report.

The Group leases its head office 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 2018, 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 plus VAT (2017: £186,000 plus VAT) 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 2018, prepaid rent and service charges amounted to £43,000 plus VAT (2017: £43,000 plus VAT).

COMPANY BALANCE SHEET
AS AT 31 MARCH 2018

	Note	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Fixed assets			
Tangible assets	32	134	131
Investments in subsidiary undertakings	33	23,533	22,799
		23,667	22,930
Current assets			
Debtors due within one year	34	224	203
Debtors due after one year	34	61,500	38,500
Short-term liquidity investments		20,112	35,000
Cash at bank and in hand		10,709	19,816
		92,545	93,519
Creditors: Amounts falling due within one year	35	(542)	(499)
Net current assets		92,003	93,020
Net assets		115,670	115,950
Capital and reserves			
Called-up share capital	36	3	3
Share premium account	36	49,324	48,243
Other distributable reserve	37	70,000	70,000
Profit and loss account		(4,823)	(4,090)
Share-based payments reserve		1,166	669
Other reserve	38	–	1,125
Shareholders' funds		115,670	115,950

The Company's loss for the year was £733,000 (2017: £1,050,000).

The notes on pages 84 to 88 are an integral part of these financial statements.

The Company financial statements of Mercia Technologies PLC, registered number 09223445, on pages 82 to 88 were approved by the Board of Directors and authorised for issue on 29 June 2018. 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 2018

	Called-up share capital £'000 (note 36)	Share premium account £'000 (note 36)	Other distributable reserve £'000 (note 37)	Profit and loss account £'000	Share-based payments reserve £'000	Other reserve £'000 (note 38)	Total shareholders' funds £'000
As at 1 April 2016	2	9,494	70,000	(3,040)	274	–	76,730
Total comprehensive loss for the year	–	–	–	(1,050)	–	–	(1,050)
Issue of share capital	1	39,999	–	–	–	–	40,000
Costs of share capital issued	–	(1,250)	–	–	–	–	(1,250)
Share-based payments charge	–	–	–	–	395	–	395
Deferred consideration payable	–	–	–	–	–	1,125	1,125
As at 31 March 2017	3	48,243	70,000	(4,090)	669	1,125	115,950
Total comprehensive loss for the year	–	–	–	(733)	–	–	(733)
Share-based payments charge	–	–	–	–	497	–	497
Deferred consideration payable (note 39)	–	–	–	–	–	390	390
Settlement of deferred consideration (note 39)	–	1,081	–	–	–	(1,515)	(434)
As at 31 March 2018	3	49,324	70,000	(4,823)	1,166	–	115,670

29. 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 three months. Short-term liquid investments with a maturity of over three 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 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.

30. 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';
- paragraphs 28 to 30 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' specifically in respect of the disclosure of new standards in issue but not yet effective;
- the requirement in IAS 24, 'Related Party Disclosures' to disclose related party transactions entered into between two 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).

31. 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.

32. Tangible assets

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2017	40	35	125	200
Additions	–	3	69	72
As at 31 March 2018	**40**	**38**	**194**	**272**
Accumulated depreciation				
As at 1 April 2017	5	15	49	69
Charge for the year	5	11	53	69
As at 31 March 2018	**10**	**26**	**102**	**138**
Net book value as at 31 March 2017	35	20	76	131
Net book value as at 31 March 2018	**30**	**12**	**92**	**134**

33. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2017	22,799
Additions	734
As at 31 March 2018	23,533

Additions to investments of £734,000 (2017: £nil) represents an increase in the cost of investment of Enterprise Ventures arising on the settlement of the deferred consideration in respect of its acquisition.

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

Details of the Company's subsidiary undertakings as at 31 March 2018 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%	Intermediate holding company
Enterprise Ventures Limited	England	100%	Fund management company
Enterprise Ventures Business Loans Limited	England	100%	Fund management company
Mercia Fund 1 General Partner Limited	England	98%	General partner
Mercia (General Partner) Limited	England	100%	General partner
Mercia Investment Plan LP[2]	England	–	Limited partnership
WM AHSN SME General Partner Limited	England	100%	General partner
Mercia Fund Management (Nominees) Limited	England	100%	Dormant
Mercia Growth Nominees Limited	England	100%	Dormant
Mercia Growth Nominees 2 Limited	England	100%	Dormant
Mercia Growth Nominees 3 Limited	England	100%	Dormant
Mercia Growth Nominees 4 Limited	England	100%	Dormant
Mercia Growth Nominees 5 Limited	England	100%	Dormant
Mercia Growth Nominees 6 Limited	England	100%	Dormant
Mercia Growth Nominees 7 Limited	England	100%	Dormant
Mercia Growth Nominees 8 Limited	England	100%	Dormant
Mercia Digital Nominees Limited	England	100%	Dormant
UGF Nominees Limited	England	100%	Dormant
Mercia Investment Management Limited	England	100%	Dormant
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 companies listed above have their registered offices at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA with the following exceptions:

Enterprise Ventures Group Limited and its subsidiaries: Unit F26, Preston Technology Management Centre, Marsh Lane, Preston, Lancashire PR1 8UQ

34. Debtors

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	–	17
Other debtors	78	20
Prepayments and accrued income	146	166
	224	203
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	61,500	38,500
	61,500	38,500

34. Debtors continued

Amounts due from subsidiary undertakings are in respect of unsecured, interest-bearing loans. Interest is charged on the principal sum of the loans 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.

35. Creditors – amounts falling due within one year

	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Trade creditors	47	114
Accruals and deferred income	495	385
	542	499

36. Called-up share capital and share premium account

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

37. Other distributable reserve

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

38. Other reserve

The movements in other reserve are disclosed in note 24 to the consolidated financial statements.

39. Directors' emoluments and employee information

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

	Year ended 31 March 2018 Number	Year ended 31 March 2017 Number
Central functions	11	10

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

The aggregate employee benefit expense (including Directors) was:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Wages and salaries	1,116	1,004
Social security costs	120	103
Other pension costs (note 40)	61	53
	1,297	1,160

The exceptional item disclosed in note 8 to these consolidated financial statements, representing the deferred consideration in respect of the acquisition of Enterprise Ventures, was payable to the extent that each of the vendors was still an employee of Enterprise Ventures at the end of the deferred consideration period, being 9 March 2018. Accounting standards require that this deferred consideration is charged as an expense in the Company's statement of comprehensive income.

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 52 to 55 of this Annual Report.

40. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2018 was £61,000 (2017: £53,000). As at 31 March 2018, no contribution payments were outstanding (2017: £nil).

41. 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 2018 Land and buildings £'000	As at 31 March 2017 Land and buildings £'000
Within one year	186	132
In the second to fifth years inclusive	746	–
Over five years	319	–
	1,251	132

Lease commitments represent amounts payable by the Company for office premises. The lease term in respect of the head office premises is 10 years from 18 December 2014 with approximately seven years now remaining. Outstanding commitments as at 31 March 2017 for future minimum lease payments in respect of the head office premises were calculated to a three-year break clause dated December 2017 which was not triggered.

42. 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 28 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)
Julian George Viggars	(Chief Investment Officer)
Ian Roland Metcalfe	(Senior Independent Director)
Raymond Kenneth Chamberlain	(Non-executive Director)
Dr Jonathan David Pell	(Non-executive Director)
Caroline Bayantai Plumb OBE	(Non-executive Director)

Company Secretary
Martin James Glanfield

Company website
www.merciatech.co.uk

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

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

Principal bankers
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham B4 6GN

Lloyds Bank plc
125 Colmore Row
Birmingham B3 3SD

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

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 joint broker
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Joint broker
Canaccord Genuity Ltd
88 Wood Street
London EC2V 7QR

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

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 21 September 2018 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 9 as ordinary resolutions and resolutions 10 and 11 as special resolutions):

Ordinary business

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts of the Company for the financial year ended 31 March 2018 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2018.
3. That Raymond Chamberlain, who retires as a Director in accordance with Article 89.1 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 Dr Jonathan Pell, who retires as a Director in accordance with Article 89.2 of the Articles and being eligible to do so, offers himself for election as a Director, be elected as a Director of the Company.
6. That Julian Viggars, who retires as a Director in accordance with Article 89.2 of the Articles and being eligible to do so, offers himself for election as a Director, be elected as a Director of the Company.
7. That Caroline Plumb OBE, who retires as a Director in accordance with Article 89.2 of the Articles and being eligible to do so, offers herself for election as a Director, be elected as a Director of the Company.
8. 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

9. 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 £303.31 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 2019 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 RESOLUTIONS

10. That, subject to the passing of resolution 9, 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 9 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 £303.31 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 2019 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.
11. That the Company be authorised generally and unconditionally, in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares provided that:

a. the maximum number of Ordinary shares that may be purchased is 30,330,971;

b. the minimum price which may be paid for an Ordinary share is 0.001 pence; and

c. the maximum price which may be paid for an Ordinary share is the higher of: (i) 5% above the average of the mid-market value of the Ordinary shares for the five business days before the purchase is made; and (ii) the higher of the last independent trade and the highest current independent bid for any number of Ordinary shares on the trading venue where the purchase is carried out.

The authority conferred by this resolution will expire on the earlier of the conclusion of the next AGM of the Company and 30 September 2019 save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase Ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

By order of the Board of Directors

Martin Glanfield
Company Secretary
27 July 2018

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

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 19 September 2018 (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 19 September 2018 (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 19 September 2018 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 of its powers as a member provided that no more than one corporate representative exercises powers over the same share.
8. As at 27 July 2018, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 303,309,707 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 27 July 2018 is 303,309,707.

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 27 July 2018 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 certain 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 2018.
2. **Resolution 2** – The Directors are required to approve the Remuneration Report for the year ended 31 March 2018.
3. **Resolutions 3 and 4 – retirement of Directors by rotation** – Pursuant to Article 89.1 of the Articles, at each AGM, any Directors who are required to retire by rotation pursuant to the Articles, shall retire and submit themselves for re-election by shareholders.
4. **Resolutions 5 to 7 – 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 election.
5. **Resolution 8 – 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 auditors.
6. **Resolution 9 – general authority to allot** – this resolution, to be proposed as an ordinary resolution, relates to the grant to the Directors of authority to allot unissued Ordinary shares until the earlier of the conclusion of the AGM to be held in 2019 and 30 September 2019 (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 of nominal amount of £303.31 (representing 10% of the issued Ordinary share capital of the Company as at 27 July 2018 (the latest practicable date prior to the publication of this document).
7. **Resolution 10 – statutory pre-emption rights** – the Act requires that if the Directors decide to allot unissued shares in the Company or transfer them out of treasury, the shares proposed to be issued or transferred 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 transfer 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 transfer equity securities out of treasury up to a maximum nominal amount of £303.31 (representing 10% of the issued Ordinary share capital of the Company as at 27 July 2018 (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 2019 and 30 September 2019 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
8. **Resolution 11 – market purchases** – the Directors are requesting authority for the Company to make market purchases of up to 30,330,970 Ordinary shares (representing 10% of the issued Ordinary share capital of the Company as at 27 July 2018 (the latest practicable date prior to the publication of this document)). There is no present intention to exercise such general authority. Any repurchase of Ordinary shares will be made subject to the Act and within guidelines established from time to time by the Directors (which will take into account the income and cash flow requirements of the Company) and will be at the absolute discretion of the Directors, and not at the option of shareholders. Subject to shareholder authority for the proposed repurchases, general purchases of the Ordinary shares in issue will only be made through the market. Such purchases may only be made provided the price to be paid is not more than the higher of: (i) 5% above the average of the middle market quotations for the Ordinary shares for the five Business Days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase. The Directors will not exercise their power to make market purchases if to do so would result in Invesco Perpetual having to make a mandatory takeover offer under the Takeover Code.

Mercia Technologies PLC

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mercia technologies