The Regionally Focused Specialist Asset Manager

MERCIA ASSET MANAGEMENT PLC
ANNUAL REPORT & ACCOUNTS
2019

INTRODUCTION

The UK's regional investor

Mercia is a proactive, specialist asset manager focused on supporting regional SMEs to achieve their growth aspirations. We provide capital across our four asset classes of balance sheet, venture, private equity and debt capital; our Complete Capital Solution.

HIGHLIGHTS

Assets under management

c.£507m

Funds under management

c.£381m

Net assets

£126.1m

Revenue

£10.7m

Direct investment portfolio

£87.7m

Net expenses

£1.4m

Unrestricted cash

£29.8m

PORTFOLIO HIGHLIGHTS

- £19.4million invested into 17 portfolio companies during the year including two new direct investments, W2 Global Data Solutions and Locate Bio
- Net fair value increase of £3.9million (2018: £2.8million)
- Direct investment portfolio increased to £87.7million (2018: £66.1million)
- £6.5million syndicated investment into Oxford Genetics
- Significant commercial progress made by a number of portfolio companies including nDreams, the Group's largest direct investment

OPERATIONAL HIGHLIGHTS

- Third-party funds under management ("FuM") totalling c.£381million (2018: c.£400million); contributing £9.6million in revenue
  - FuM reduction reflects the winding down of the RisingStars Growth Fund including returning c.£17million of capital to fund investors
- Venture FuM £224.1million. RisingStars Growth Fund fully unwound in March 2019, generating an IRR of 15% and a total value to paid-in capital ("TVPI") of 528% for investors
- Private equity FuM £61.2million. Coalfields Growth Fund has to date generated an IRR of 19% and a TVPI of 236% for investors
- Debt FuM £96.0million. Finance Yorkshire Small Loans Fund winding down generating a 107% return on original fund commitments

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AT A GLANCE

An evolving business model

OUR VISION

To be the first choice for investors, investees and employees

By aspiring to be the first choice, we believe that this clear vision will enable Mercia to deliver superior returns over the medium to long term for both shareholders and fund investors alike.

Through Mercia's own balance sheet and managed funds capital, we can provide the 'Complete Capital Solution', offering a range of balance sheet, venture, private equity and debt capital to UK SMEs. Mercia's Board believes that there is a significantly greater opportunity to focus outside of London and the South East through the efficient and targeted provision of capital and active support, to create substantial medium-term value.

REGIONAL FOCUS

Regional businesses with global aspirations

Mercia has a strong footprint across the UK regions through its eight offices, c.£500million of assets under management ("AuM") and an increasingly strong network, which provides deal flow to each of our managed funds. With established executive and non-executive director talent pools, 19 university partnerships, extensive personal networks through one of the largest investment teams in the UK and a portfolio of c.400 businesses, Mercia has developed an extensive deal flow pipeline. This, in combination with a notable under supply of capital in the regions, provides an opportunity for Mercia to source exciting investment opportunities at realistic entry valuations and to proactively support founders and managers to fulfil and beat their own growth aspirations.

MERCIA'S INHERENT VALUE

More than the sum of its parts

As at 31 March 2019, Mercia benefits from a strong balance sheet comprising its direct investment portfolio valued at £87.7million, unrestricted cash of £29.8million plus goodwill, intangible assets and net working capital combined amounting to £8.6million.

Its wholly-owned profitable fund management operations, which manage funds totalling c.£381million, achieved revenues of £9.6million.

DIRECT INVESTMENT PORTFOLIO

As an investor, Mercia is active in each of the businesses in which it invests, taking a board position in each equity investment to ensure that it provides support throughout the investee company's journey. It also stays actively engaged with each of the businesses to which it lends. This portfolio support also includes input from Mercia's Platform, an internal team of talent resourcing, corporate advisory, legal and research expertise. We believe these value-added services help investee companies to accelerate their growth prospects. Amongst the direct portfolios are:

Fair value

£87.7m

nDreams

World-leading virtual reality ("VR") company developing content for global brands such as Oculus and Sony PlayStation

OXFORD GENETICS

Gene therapy specialist providing world-leading technologies and advanced techniques for drug and gene therapy development

Intechnica

Experts in web performance and security supporting blue chip organisations including ASOS, Channel 4 and Avis

FARADION

Leaders in non-aqueous sodium-ion cell technology which delivers a high-performance, safe and cost-effective battery solution for key applications including transportation, storage, back-up power and energy in remote locations

MANAGED FUNDS PORTFOLIO

The Group has three distinct fund management operations; venture, private equity and debt. We offer the most appropriate type of capital for each investment opportunity that we consider and in many instances, we can co-invest from more than one pool of capital, which demonstrates the highly collaborative nature of our business model; our 'Complete Capital Solution'.

	VENTURE	PRIVATE EQUITY	DEBT
Funds under Management ("FuM")	£224million	£61million	£96million
Number in portfolio	177	13	181
Investments/loans in the period	£30.5million	£8.5million	£15.0million

To date, Mercia's closed and legacy funds have returned c.£176million back to fund investors at a ratio of c.2.4 times original invested fund capital. The vintages of these funds vary from 10 to 16 years with certain funds returning IRRs of 15-17%. The balance sheet direct investment portfolio is younger in its journey with an average investment period of c.2.5 years. As we have observed with our managed funds, it is realistic to expect upward growth in fair value movements as the balance sheet investments mature over a three to seven-year period toward mainly cash exits.

FuM

c.£381m

Strategic report

NON-EXECUTIVE CHAIR'S STATEMENT

An evolving business model

Direct investment portfolio value

£87.7m

2018: £66.1m

Profit for the year

£2.6m

2018: £1.7m

Ian R Metcalfe
Non-executive Chair

The year ended 31 March 2019 has seen continued positive progress by the Group's direct investment portfolio. This year has also seen the evolution of Mercia's business model to that of a proactive, regionally focused specialist asset manager. This natural progression arises from the increasing maturity and value of Mercia's balance sheet direct investments, as well as the significant success that the Group has achieved in winning new fund management contracts. This evolution has led to the Group's change of name and branding to Mercia Asset Management PLC, which better reflects what the Group has become and will be in the future.

Having assembled a talented team of investment and support professionals, and firmly established its regional footprint, Mercia is seeing the benefits of being able to offer a 'Complete Capital Solution' to UK SMEs. In so doing it is identifying, investing in and supporting an increasing number of young businesses which have the potential to deliver significant incremental value.

The Group invests in both its growing deal flow pipeline and existing portfolio companies via one or more of the four pools of capital it has under management: balance sheet, venture, private equity and debt. In total c.£507million of capital is now being managed by the Group.

Direct investment portfolio progress

As the direct investment portfolio matures it is encouraging to see both the increasing quality of the businesses being built and validation of their value-creating growth strategies, via investment rounds at higher valuations, some of which include syndicate investors. In this regard, the Board has been pleased by the tangible commercial progress made by both nDreams and Oxford Genetics; the growing emergence of other portfolio companies such as Intechnica, Medherant, Faradion, Voxpopme, Intelligent Positioning and Eyoto, and the increasing profitability of The Native Antigen Company.

Two new companies were added to the direct investment portfolio this year, W2 Global Data Solutions and Locate Bio, both of which have come through Mercia's managed funds pipeline. The Board recently conducted a detailed review of the companies which may emerge from that pipeline in the foreseeable future. The list is encouraging, continuing to grow and balanced by sector.

Strategic review – the next chapter

During the early part of 2019 the Board conducted a detailed strategic review of the Group's progress to date, with the aim of continuing to scale Mercia to become a profitable, dividend-paying and self-sustaining investment group. This review also took account of the ongoing challenges facing the intellectual property commercialisation sector.

Mercia's business model has always differentiated itself from other sector participants, having:

- A regional focus where entry pre-money valuations are often more realistic
- Both university and non-university deal flow pipelines offering a broader range of investment opportunities
- A non-therapeutic portfolio bias, reducing the risk and dependence on binary outcomes for value inflexion
- Typically, less capital required by investees to reach profitability
- 'Funds first' before the Group's balance sheet capital is invested
- A growing and profitable fund management operation which largely offsets the Group's total operating costs, thus minimising net asset value erosion and cash burn

Since its inception, Mercia has been clear in its determination to trade profitably so that its annual revenues (which exclude unrealised fair value movements) exceed the total operating costs of the Group. The key to reaching this objective is twofold – continuing to increase the quantum of funds which the Group manages on behalf of a growing number of third-party stakeholders, whilst at the same time maintaining control of costs.

The Group is also determined to reach the point of balance sheet sustainability, such that regular realised cash returns from trade sales and the unwinding of equity stakes in listed companies are sufficient for its annual direct investment needs.

Since its IPO in December 2014 Mercia has evolved from a Midlands-based, relatively small technology investor to a much larger regionally focused, specialist asset manager with investment expertise across its four asset classes. Continuing to grow all four pools of capital will enable the Group to achieve its twin strategic objectives. This is the path upon which the Group has now embarked.

Group Board

Since the appointment of Julian Viggars as Chief Investment Officer in April 2018 and Caroline Plumb OBE as an additional Non-executive Director in June 2018, the Board has focused on the strategic direction of the Group and its execution priorities. The Directors (together with the Group's Chief Operating Officer, Peter Dines) provide a balanced and experienced leadership group to drive shareholder value creation.

Mercia's former Non-executive Chair, Susan Searle, recently stepped down from our Board to make the appropriate time commitment for her other roles. We will all miss her passion, enthusiasm and commitment to Mercia. Given the evolution of Mercia into a specialist asset manager, the Board intends to appoint an additional Non-executive Director with relevant background experience in due course.

People and culture

During the year the Executive Directors have continued to lead the development of the Group's 'One Mercia' culture, details of which are set out in the Corporate, Employee and Social Responsibility section of this year's Annual Report.

It is pleasing to see the embedding of Mercia's core values, being growth-focused, responsive, knowledgeable and trusted in all of the Group's internal and external stakeholder interactions, which continue to be strongly supported by Mercia's leadership team.

Outlook

All businesses must evolve to meet their ever-changing market dynamics and as its new name suggests, Mercia Asset Management PLC is no exception.

Mercia's recent strategic review has reinforced the Group's core competencies, being:

- Active direct investment portfolio management and support, including a focus on profitable cash exits
- Proven acquisition and integration expertise
- Fund mandate tendering and subsequent capital deployment
- Talent acquisition and retention

These core competencies will be deployed to maximise the opportunities which now exist to increase returns for all stakeholders, but especially shareholders and the Group's investee company community.

Notwithstanding the challenging political, economic and market sector climate, the Group looks forward to this financial year with great energy and purpose. The Board will remain focused on the progress of the largest balance sheet direct investments and the pace and scale at which these are being developed. Mercia's venture, private equity and debt funds activities are also monitored by the Board. As and when suitable opportunities present themselves, we will seek to expand this part of the Group's business.

Finally, I would like to thank our shareholders for their continuing loyal support, particularly during what has been a period of challenging investor sentiment. It is also a pleasure to interact with all the excellent staff at Mercia and in so doing, to see their energy and determination to succeed on behalf of Mercia's shareholders, fund investors and investee company management teams alike.

Ian R Metcalfe
Non-executive Chair

Strategic report

WHERE WE OPERATE

A needle in a stack of needles

There are c.5.7million small to medium sized enterprises ("SMEs") in the UK, a growth of 63% over the last two decades. When considering this large number, it takes a certain skill to be able to identify a potentially truly great business. Yet it is precisely this skill on which Mercia focuses. With regionally spread investment teams, our aim is to see at least 60% of all new investment opportunities, which we are on track to achieve given our scale, networks and in-house research competence.

We take great interest in the development of the UK's high growth firms ("HGFs") (defined as businesses with revenues growing at 20% plus per annum for at least three years) and their distribution across the UK. Our analysis of the market tells us that there is a significant opportunity to further scale our model when we look at the volume of HGFs set against our own current transaction levels.

Our venture, private equity and debt investment teams are focused on the geographies outside of London and the South East, which is precisely where we have our offices. These are regions where investment capital is relatively sparse, yet vibrant business communities exist which require investment and active operational support to achieve that next commercial milestone or stage of growth. There is also increasing evidence to suggest that people are basing themselves out of London to achieve a better work/life balance to:

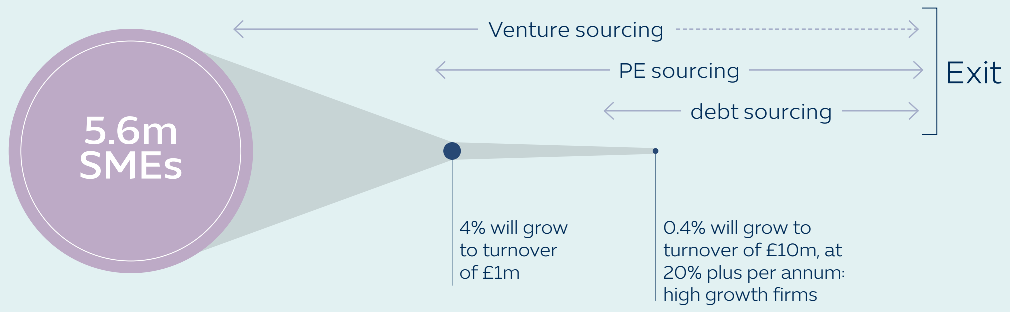
- **Avoid lengthy commutes** – Londoners have the longest average commute in the country at 74 minutes – almost twice the worldwide average of 40 minutes
- **Improve mental health and wellbeing** – since 2012 the Office for National Statistics presents a clear pattern: "people in London have consistently reported lower personal wellbeing, including lower levels of happiness, lower levels of life satisfaction and higher levels of anxiety".

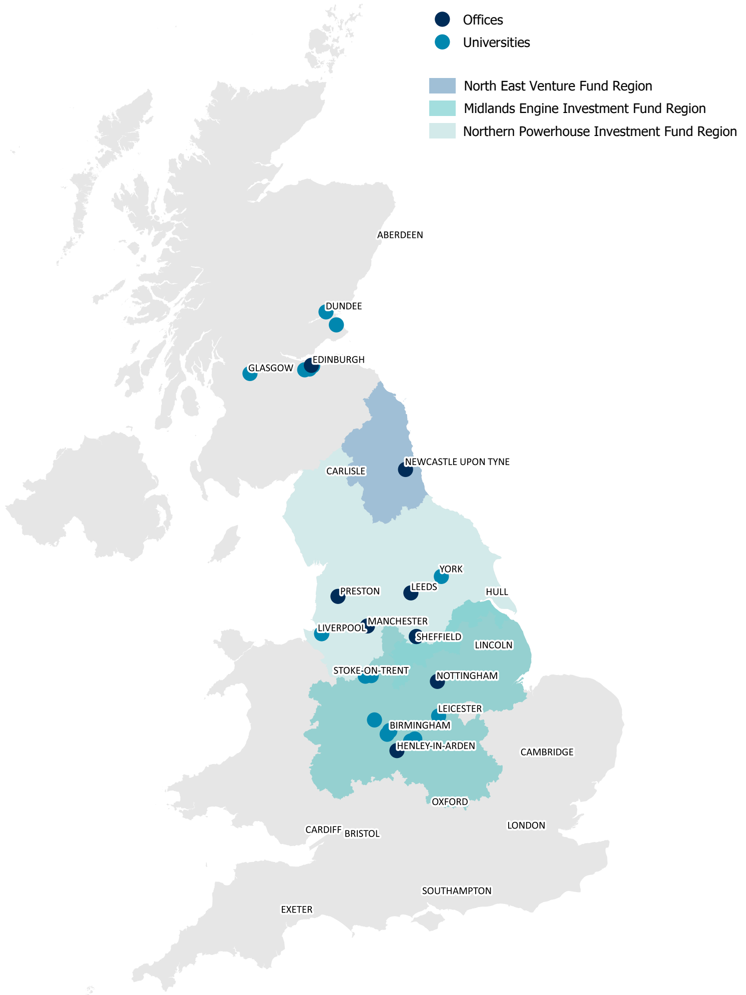
In addition to the wellbeing element, there is also the economic rationale. London and the South East has a significant oversupply of capital which is creating relatively high pre-money valuations when compared to the UK regions. Mercia's business model therefore focuses our time in the regions where we will uncover just as exciting deals, but with more appropriate pre-money valuations, which should deliver better returns for both shareholders and fund investors over time.

OUR PURPOSE

The Group believes there is a significant opportunity in the UK regions to develop leading businesses through the efficient and targeted provision of capital and support, creating substantial value for both shareholders and fund investors.

SOURCE THE BEST DEALS



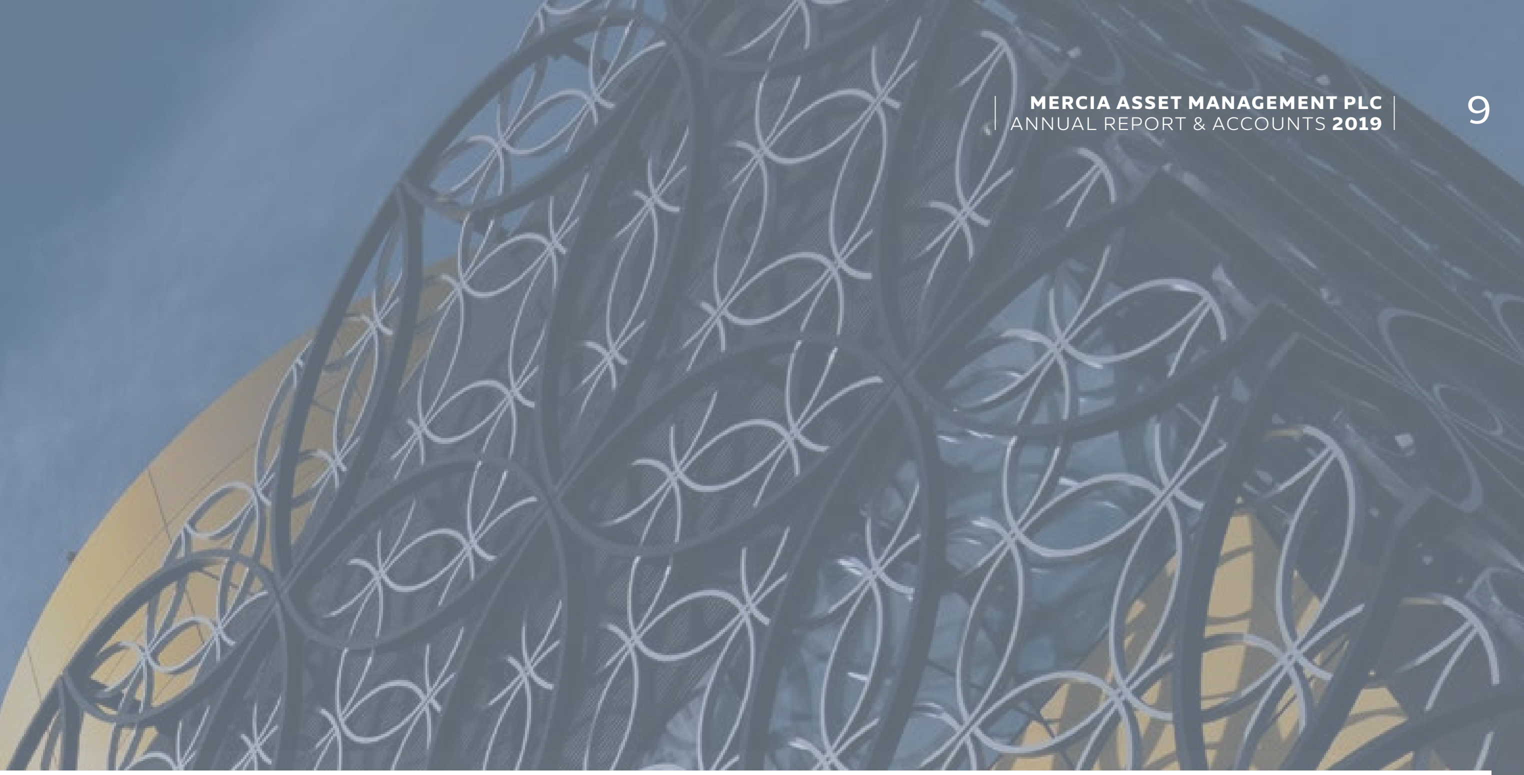


OUR JOURNEY

A growing track record

From our origin as a single office in Birmingham, investing in opportunities derived from the universities of Warwick and Birmingham, we have been consistent in our vision of maintaining our investment focus on the UK Regions. Notwithstanding our 19 important university partnerships, we have greatly expanded our deal flow sources over the past four years to the extent that our partner universities now account for just under 20% of our investment activities.

	2015 →	2019
Employees →	14	85
Offices →	1	8
Revenue →	£0.5m	£10.6m
Profit after tax →	£2.0m	£2.6m
Direct investment value →	£24.6m	£87.7m
No. of portfolio companies →	41	371
FuM →	c.£22m	c.£381m
AuM →	c.£31m	c.£507m



DELIVERING BALANCE SHEET AND FUND VALUE

Mercia Asset Management is focused on delivering value from its direct investments and its managed funds' portfolio.

allinea
Now part of ARM

Based in Warwick, Allinea is a leading provider of software tools for developing and optimising high performance computing applications. The business was sold to ARM, the world's leading semiconductor IP company, in December 2016 for a total cash consideration of up to £18.1million. The sale represented a return of c.26x on the original investment cost of the managed funds and c.21x the original direct investment cost.

science warehouse

A spinout from the University of Leeds, Science Warehouse is a provider of spend management and eMarketplace systems to commercial, government, higher education, NHS and housing customers. The business was sold to Advanced Business Software and Solutions in March 2018 and the proceeds received represented a return to Mercia of 14.8% on its total investment cost of £9.2million.

blueprism®

Based in Newton Le Willows and a portfolio company from one of our managed funds, Blue Prism is the most successful story from our portfolios thus far. With a relatively modest initial investment of £0.9million over two years in 2004 and 2005, Mercia has subsequently delivered cash returns of c.95x to the fund's investors, as well as a performance fee to Mercia in 2018.

14% BALANCE SHEET PORTFOLIO IRR
(December 2014 – March 2019)

Strategic report

BUSINESS MODEL

INPUTS

Experienced investment teams
Combining highly experienced investment executives with operational specialists, we pool our expertise to identify and structure investment opportunities which we can scale using the operational insight our team has gained in industry. We also have a highly experienced team of former senior banking professionals to deploy our debt funds. We pool deal flow across the whole Group and harness the power of our complementary investment and lending teams to build stronger and more valuable syndicates and pipelines.

Partnerships
Our university networks help us to uncover IP-rich opportunities and our close working relationships with the investment community means we are presented with deals because we are an investment partner of choice with a trusted track record.

Regional footprint
From Poulton Le Fylde to Peterborough and Abingdon to Abertay, our investment teams hunt in locations which most investors would not normally consider. The investment teams are supported by professional staff across our eight UK offices.

Mercia Platform
We use in-house resources to offer to our portfolio companies talent management, corporate advisory, legal and research services. This means we can build out our portfolio businesses and the management teams so that they are prepared for growth.

Capital resources
We have now built our AuM to £507.0million which includes c.£200million of uninvested capital from our third-party funds and balance sheet. We are therefore well resourced and have built our infrastructure ready for our next stage of growth.

INVESTMENT MODEL

01

Three discrete specialist investment strategies (“SIS”) centred on the UK Regions:

- Venture, private equity and debt funds – typically in deal sizes of £0.3million to £10.0million
- Operational improvement/scale – utilising Mercia’s Platform and internal sector and operational expertise
- Technology – within Mercia’s four technology sectors of Life Sciences & Biosciences, Software & the Internet, Digital & Digital Entertainment and Electronics, Materials, Engineering/ Manufacturing

ASSET CLASS
Balance sheet, proprietary capital
Venture
Private equity
Debt

02

Managed third-party funds matched to one or more of Mercia's SIS:

- UK domestic SMEs typically with valuations of £1.0-£25.0million on first investment

03

Balance sheet capital is for:

- Direct investment with an emphasis on Mercia's four technology sectors
- Equity investment into scalable opportunities emerging from the managed funds from which we can realistically expect to exit in a three to seven-year timeframe
- Modest capital contribution to four of our third-party managed funds
- Accelerated growth opportunities

ENQUIRIES	FuM	DEAL TYPE	PERFORMANCE
Investor in FuM and selectively invests in portfolio companies within FuM (currently c.400 companies to source deals from)	Portfolio valued at £87.7million with £29.8million unrestricted cash	Invests in portfolio companies typically emerging from the Group's equity funds, as well as being a limited partner in four of the Group's venture and debt funds	22 active companies in the portfolio. Average age of investment is 2.5 years, c.£14million in realisations to date and portfolio performing at an IRR of 14%
In 2018/19 we received 2,792 enquiries – up 57% from the previous year	£224.1million in total, with £80.5million new cash to invest	For initial investment; from proof of concept with pathfinder funding for university spinouts, through to seed and up to Series A within Mercia's SIS	177 companies in the portfolio. First fund to close and unwind was focused on the North West of England (RSGF) and returned an investor IRR of 15% and a TVPI of 528%
	£61.2million in total, with £33.9million new cash to invest	Invests in profitable businesses where Mercia brings operational improvements to scale profitability	13 companies in the portfolio. One of our earliest regionally focused funds was CGF which has to date returned an investor IRR of 19% and a TVPI of 236%
	£96.3million in total, with £53.4million new cash to lend	Lends to profitable businesses	181 companies in the portfolio. The first fund to close was focused on Yorkshire (FY Small Loans) and is returning 107% of fund capital

Strategic report

KEY PERFORMANCE INDICATORS

Strategic priorities

We focus on UK regional opportunities where our SIS, combined with our strong capital position, can co-create material value for all our stakeholders over the medium term. Our strategic priorities therefore underpin our ability to pick the best deals at the right entry price, accelerate their value via support from Mercia's Platform and scale FuM to meet both investment demand and move the Group towards a profitable trading position.

INDICATOR	PERFORMANCE
Growth in value of the Group's portfolio through investment activity How it was measured Measured in terms of the gross cash invested in direct investments	£19.4m 2019 £19.4 2018 £21.3 The Group has demonstrated continued 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")	£3.9m 2019 £3.9m 2018 £2.8m Reflects a year of continuing positive momentum in what is still a relatively young portfolio
Number of companies invested in during the year How it was measured Measured in terms of all companies invested in (both existing and new direct investments) during the year	17 2019 17 2018 17 The Group has demonstrated continued growth in its direct investment activities through the number of companies in which it has invested during the year
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	£29.8m 2019 £29.8m 2018 £49.4m Mercia continues to have sufficient liquidity for its direct investing and operating activities

INDICATOR	PERFORMANCE
Third-party funds under management How it was measured Measured in terms of fund management contracts secured and under active management	c.£381m 2019 c.£381m 2018 c.£400m The FuM reduction was due to distributions to fund investors
Investment realisation proceeds received How it was measured Measured in terms of the cash proceeds received from realised investments	£0.0m 2019 £0.0m 2018 £10.8m No cash realisations were completed during the year, although external interest in the Group's direct investments is increasing
Revenue How it was measured Measured in terms of all revenues derived from both fund management and direct investing activities	£10.7m 2019 £10.7m 2018 £10.2m The Group's revenue increase was derived from the quantum of funds under management and the accelerating deployment of those funds
Net expenses How it was measured Measured in terms of total revenue less all staff and administrative expenses	£1.4m 2019 £1.4m 2018 £0.4m 2018 benefitted from one-off profit share and success fees from fund raises. Net expenses have now levelled out
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	41.6p 2019 41.6p 2018 40.7p The Group's net asset value per share continues to increase as growth in the value of the direct investment portfolio exceeds net expenses

Strategic report

CHIEF EXECUTIVE OFFICER'S REVIEW

Focusing on the regions

Assets under management

c.£507m

2018: c.£500m

Companies invested in/lent to

145

2018: 90

Dr Mark Payton
Chief Executive Officer

We have begun our new financial year with a solid foundation from which to further scale Mercia's funds under management ("FuM"), whilst remaining focused on our balance sheet direct investment portfolio. Almost all deal activity is predominantly sourced from the UK regions where we have established ourselves as one of the most trusted and active investors. We remain confident in our ability to accelerate growth in both our FuM and the value of our direct investment portfolio over the medium term.

The regionally focused specialist asset manager

In the last 12 months Mercia has experienced marked growth in capital deployment from its balance sheet and managed funds as it builds a strong foundation from which to further expand its assets under management ("AuM"). In this reporting period, Mercia received 2,792 (2018: 1,800) requests for investment and invested c.£73million (2018: c.£46million) across the Group into 145 companies (2018: 90). Revenue grew 4.7% to £10.7million (2018: £10.2million), reflective of the Group's consolidation in the year following a period of recent and rapid expansion.

A simple measure of the progress that the direct investment portfolio is making is to compare the number of positive and negative fair value movements that are occurring year on year, as well as the overall value of those movements and the percentage that the total fair value movements represent, against each year's opening fair value. Given that just over four and a half years have elapsed since Mercia's IPO in December 2014, it is important to remember that the average amount of time that the balance sheet's capital has been invested in these typically young and intellectual property-intensive businesses is just over two years. Mercia's objective is to successfully exit following a three to seven-year timeframe from initial balance sheet investment. During the year to 31 March 2019 it is encouraging to see that there have been 12 fair value uplifts (2018: nine) and only three fair value decreases (2018: nine). As a result, the total net fair value gain has increased 39.3% to £3.9million (2018: £2.8million). Whilst the net fair value increase in the year at 5.9% (2018: 5.4%) is relatively modest, it is somewhat skewed by the £4.0million write-off of Mercia's investment in Smart

CHIEF EXECUTIVE OFFICER'S REVIEW continued

Antenna Technologies. As set out in the Chief Investment Officer's review, the Executive Directors made the difficult recommendation, fully supported by the Board, to cease funding Smart Antenna Technologies due to a significant change in the investment needs of the business. Whilst Mercia's investment team works hard to minimise portfolio failures, it is the nature of venture capital investing that not every investment will work out as planned. It is worth noting however, that but for the Smart Antenna Technologies write-off, the underlying net fair value increase in the value of the portfolio during the year was 12.1%, which is a more indicative measure of the positive progress that the portfolio is making. Two new businesses were added to the portfolio during the year, W2 Global Data Solutions and Locate Bio.

Net expenses at £1.4million (2018: £0.4million) were better than market expectations and overall these results set the backdrop for creating a sustainable business seeking to accelerate growth in AuM over the near to medium term, coupled with a continued direction of travel towards profitable trading before the added value of profitable cash realisations and upward fair value movements.

In the regions, from the regions, to the regions

Mercia's stated intent is to become the leading regional provider of supportive balance sheet, venture, private equity and debt capital in transaction sizes typically below £10.0million. Recent research reports from Beauhurst have shown Mercia to be the fourth most active investor nationally and second most active in the North of England. We base ourselves in the regions so that we can access and support ambitious businesses, enabling us to move capital from London to the regions, whilst supporting business growth and providing attractive investment returns from the regions to our fund investors, shareholders and business owners. Mercia's strategic plan is supported by data from Beauhurst, the British Business Bank and the British Venture Capital Association. As a ratio based on the percentage of high growth firms to total equity capital deployed, London has an approximately three times oversupply of capital compared to, for instance, the Midlands at 0.3 times. Our positioning in the regions provides an attractive opportunity to source high quality deal flow with relatively limited competition, whilst helping owners meet and beat their own growth ambitions.

A maturing direct investment portfolio underpinned by proprietary capital

Since Mercia's IPO in December 2014, we have to date invested c.£84million into the balance sheet portfolio of direct investments (focused on assets initially developed within Mercia's FuM) and £0.8million as a cornerstone investor in four of our managed funds. Our direct investment activity has resulted in c.£14million in realised cash returns thus far and the IRR of the direct investment portfolio is currently c.14%.

Our proprietary capital model means that we do not have the same pressure to invest capital for the sake of generating fees. Our teams have the time to actively nurture interesting companies from within our FuM and build relationships with management teams long before we invest directly and so we seek over the medium to long term to generate superior returns. The combination of our balance sheet capital with third-party FuM, centred on regional investment activity, is the cornerstone of Mercia's business model. This approach ensures that our shareholders benefit from investment returns over the medium term with minimal net asset value erosion from the net expenses of running our business. Our ungeared balance sheet, connected internal processes and focused investment model allow us to be competitive and agile for the right investment opportunities.

We ended the year with unrestricted cash of £29.8million (2018: £49.4million) and net assets of £126.1million (2018: £123.5million).

Portfolio performance

The portfolio of investments assembled within our FuM over the 17-year period from 2002 (and for our direct investment portfolio since 2014) is starting to create and realise significant value.

Notable direct investments initially supported by our FuM include nDreams (a fee for service and proprietary content developer for the virtual reality ("VR") gaming sector, which is in a period of strong revenue growth and has received further third-party investment post year end); Oxford Genetics (a promising synthetic biology business which is growing rapidly with revenues up by nearly 300% in the past 12 months and which recently completed a £6.5million syndicated investment round to further

"These results mark the acceleration of Mercia's evolution towards becoming a profitable, proactive and regionally focused specialist asset manager. Across our four different asset classes, balance sheet, venture, private equity and debt capital, we recorded our strongest level of activity by deal completions and investment value to date."

scale the business); Voxpopme (a SaaS based video analytics business in rapid revenue growth); Intechnica (a provider of bot analytics and website optimisation services and tools in strong revenue growth); and Faradion (a disruptive sodium-ion battery cell developer which completed a syndicated round of investment post year end).

Notable venture portfolio companies within our FuM include Axis Spine (a spinal implant innovator that is attracting significant attention from the US market) and Sense Bio (a developer of user-centred, handheld diagnostic test devices in the fields of infection and oncology). Another fund portfolio company, Clear Review (a SaaS business providing HR management tools), has been added to the direct investment portfolio since the year end.

In addition to the considerable new investment activity during the year, the Group also unwound its fund investment in Blue Prism Group (previously held in the RisingStars Growth Fund) for a money multiple on initial investment of c.95x; an outstanding investment return.

As well as our differentiated regional strategy and FuM combination with proprietary balance sheet capital, the Group has developed its own Mercia Platform for the benefit of its portfolio companies and our investment teams. The Platform comprises (i) portfolio talent management to assess and support investee boards, 'C suite' and senior management recruitment and development, plus help build regional non-executive director networks; (ii) corporate advisory to manage deal syndications alongside the Group's capital; (iii) legal, where we look to support portfolio companies with legal investment documentation expertise; and (iv) research for the benefit of Mercia's strategic execution and our portfolio companies. These value-added services to investee companies positively differentiate Mercia in our marketplace.

Funds' performance and return

To date, Mercia's closed and legacy funds have returned c.£176million. The vintages of these funds have varied from 10 to 16 years with certain funds returning IRRs of 15-17%.

Venture

Our first venture fund to be fully unwound and capital returned to investors, RisingStars Growth Fund, was an early-stage fund specifically targeted at young businesses sourced from the North West of England. It has generated an investor IRR of 15%, total value to paid-in capital ("TVPI") of 528% and distributions as a proportion of paid-in capital ("DPI") of 468%. This fund benefitted from a portfolio generating nine trade sales and three IPOs.

Private equity

Our oldest private equity fund is another regional fund, Coalfields Growth Fund, which has so far generated an investor IRR of 19%, TVPI of 236% and a DPI of 167%. This fund benefitted from a portfolio generating three successful exits to date.

Debt

Our first and oldest debt fund which is currently winding down is the Finance Yorkshire Small Loans Fund. Focused on lending to businesses in Yorkshire, it will return 107% of original fund commitments.

Outlook

We enter our current financial year having developed a strong foundation for Mercia's next chapter as a proactive, regionally focused specialist asset manager. This domestic focus in part protects us from the uncertainties of the UK's departure from the EU and the nature of its new relationship and timing. The Group has a healthy cash position with c.£168million in free cash to invest from its FuM and in addition c.£30million of unrestricted balance sheet cash to support new and existing direct investments. We remain centred on transactions typically requiring less than £10.0million in total and by leveraging the four pools of capital that we manage across the Group, Mercia remains well positioned to combine third-party funds with our own balance sheet capital, where appropriate.

Mercia's presence in the UK regions of the Midlands, the North of England and Scotland is now firmly established. We continue to value our relationships with the Group's 19 partner universities, as well as fund investors such as the British Business Bank, City Councils, regional pension funds, banks and our many private investors. We thank them all for their trust in us with their capital.

Our two clear goals remain to grow the value of Mercia's net assets through accelerated growth of the direct investment portfolio whilst seeking to expand our FuM to move the Group to a sustainable, profitable position before realised gains and fair value movements. The Group's objective is to grow AuM to at least £1.0billion over the medium term. We believe that the achievement of these goals will result in a sustainable business model which will deliver significant shareholder value over the medium term.

The Board strongly supports Mercia's next stage in its evolution, as demonstrated by the recent name change to Mercia Asset Management PLC. Internally, we reference the Group as 'One Mercia' as we leverage the collective strength of a highly talented 85-plus team. I would like to thank all our valued staff for their drive and commitment as we open 'Chapter Three' of Mercia's journey to become the leading, regionally focused specialist asset manager.

Dr Mark Payton
Chief Executive Officer
5 July 2019

Strategic report

CORPORATE, EMPLOYEE AND SOCIAL RESPONSIBILITY

Our goal is to ensure that Mercia is a great place to work, where we have a shared sense of purpose and our four core values are at the heart of everything we do. We believe that 'how' we do things is fundamental to our success at all levels and helps to distinguish us at Mercia. It matters deeply to all of us that we are seen as trusted and knowledgeable professional partners by all stakeholders.

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 (both PLC and funds), employees, suppliers and the businesses in which the Group invests. Mercia seeks to comply with all laws, regulations and rules applicable to its business and to conduct that business in line with established best practice. The Group takes a zero tolerance approach to bribery and corruption and has enacted procedures to prevent both.

People and talent

Recognising the importance of our people to Mercia's future success, the people and talent team was expanded during the year, with their focus firmly on delivering a great employee experience. 2018/19 was a year of headcount growth, recruiting talented individuals to help us scale, whilst introducing best-in-class ways of working. 2019/20 will be a year of ensuring maximum performance from all of our people, enabling them with training and performance development opportunities.

Our Mercia team are openly encouraged to share best practice and knowledge for the benefit of others, always striving to exceed expectations. We believe that the best way to ensure that our team feels engaged and valued for the work they do is by recognising and rewarding their contribution to Mercia. We regularly showcase employee achievements at internal events and in our bi-weekly newsletter and offer rewards for successful recruitment introductions, new investment opportunities, work anniversaries and other noteworthy accomplishments.

Training and development

Having increased average headcount significantly in 2018/19 from 65 to 85 people, with 90 staff at the year end, our new Mercia Academy initiative focuses on learning and development throughout each stage of an employee's Mercia journey. As a result, we have invested more than 1,000 hours of training in our team within the last six months. This has been largely achieved by sharing best practice and knowledge in the form of a planned programme of monthly internal workshops, providing technical learning for our investment and operational teams, as well as bringing in external experts to equip our staff to deliver at their best. A buddy system has also been successfully launched, where new employees can develop their skills through social interaction and informal learning, even before joining Mercia.

Our core values

Growth focused
We seek to optimise performance and growth at an individual, team, Group and investee level

Knowledgeable
We are recognised as experts in our field, sharing knowledge for the benefit of others

Responsive
We think deeply, always meeting commitments and aiming to exceed expectations

Trusted
We are trusted partners, known for being honest, professional, reliable and fair

Compliance and anti-money laundering training remains a priority for the Group and all employees who are involved with the regulated business of managing investment transactions receive appropriate training and refresher courses. We have held positive meetings with external training providers, which will enable us to consider offering professional apprenticeship qualifications, and we will explore this further in 2019/20. Support towards professional qualifications for members of our Finance and Compliance team will also continue.

Performance management

Our group-wide performance and development review process was launched during the year, with managers actively helping their teams to achieve career and personal goals, as well as highlighting areas where additional support may be required. Regular ongoing development discussions between managers and employees take place, with our Mercia leaders having undertaken formal leadership training. This is continuing in the new financial year as we focus our managers on developing high-performing teams.

We care about what our people think and encouraged participation in our first employee engagement survey in August 2018. We believe that gathering this feedback and providing a formal channel for employees acts as a healthy temperature check. Our employee Net Promoter Score sits at +48, a score which we will be using as our benchmark to measure progress in the new financial year.

Employee diversity

Mercia promotes diversity and equal opportunity for all in our recruitment, development and promotion of employees. We do not differentiate on the grounds of age, gender, religion, sexual orientation, ethnicity or physical ability. Of our 90 employees at the year end, 38 are female and 52 are male, with 7% more of an equal balance compared with last year's reported gender split.

Health, mental wellbeing and safety

The health and safety of our people remains paramount. The Group endeavours to provide a safe working environment for all. Our employees are responsible for the promotion of, and adherence to, health and safety in the workplace. The primary purpose of the Group's health and safety policy is to enable our team to go about their work, with the expectation that they can do so, without risk to their health and safety, and that of others.

Our proactive approach to mental wellbeing continues with employees and their families having access to an employee assistance helpline. This line is open 24/7 and offers support from professional counsellors and advisers who are available to provide confidential support and practical advice on personal and/or work-related issues. Recognising that mental health should be held in equal regard to physical health and wellbeing, we have recently introduced qualified mental health first aiders within Mercia, with a planned network of mental health supporters in each of our office locations. This ensures that our employees have a safe and confidential environment in which to discuss concerns and seek advice on alternative support options.

The environment

Despite being geographically spread across eight offices given the overall size of the Group, Mercia considers the direct environmental impact of its employees to be relatively low. However, we remain committed to operating our business in an environmentally responsible and sustainable manner and encourage all employees to reduce their impact on the environment in their day-to-day business activities. We actively encourage cycling to work, with the benefits being twofold: reducing our carbon footprint and adding to our employees' health and wellbeing. Our cycle to work scheme is used across the Group by a number of employees. During 2018/19 we introduced paper recycling boxes, reusable glass bottles in meeting rooms and a 'ways of working' policy, which discourages electrical items such as desk monitors from being left on while away from the office.

Giving back to society

We recognise our corporate and social responsibilities and there has been further positive focus on this area in recent months, with the introduction of our 'Mercia Spirit' initiative. Mercia Spirit is a way of us giving back; gifting our time, knowledge and fundraising ideas for the benefit of others. Our employees have this year chosen to support two charities, Cancer Research UK and Enabling Enterprise. With cancer touching so many lives, we believe this to be a very worthy choice for our fundraising activities. We have also made a commitment to dedicate time in 2019/20 to supporting the Enabling Enterprise initiative, helping students to build essential skills and be fully prepared for the workplace. Investing our time in young people is crucial, as it enables them to have a chance to experience real workplaces and connect with professional adults. During the year ended 31 March 2019 we have been able to support schoolchildren from within our local communities with work experience placements and undergraduates with internship opportunities.

"Creating a great place to work and where great work is accomplished."

CANCER RESEARCH UK

Skills Builder PARTNERSHIP

Average number of employees

85

2018: 65

Employee Net Promoter Score

+48

Hours of internal training provided via the newly introduced 'Mercia Academy'

1,000+

Strategic report

CHIEF INVESTMENT OFFICER'S REVIEW

A maturing portfolio

Gross cash invested

£19.4m

2018: £21.3m

Net fair value movements

£3.9m

2018: £2.8m

Julian Viggars
Chief Investment Officer

Having taken over the role of Chief Investment Officer in April 2018 this has been my first full year to focus on the construction of the direct investment portfolio and oversee the Group's activities across all of its managed equity funds. I am pleased to say that we have made significant progress in all of these areas and we are now starting to see the benefits of the previous hard work, as our portfolio companies start to mature; examples of this progress are highlighted below.

As with any young portfolio, in addition to the good progress we see, we would of course expect challenges. I commented in the half year results that we were prepared to take action in circumstances where our fundamental rationale for investment had changed, which had been the case with Edge Case Games. This business was sold to Wargaming in November 2018, returning an initial £1.1million to us in a deal involving further deferred contingent consideration of up to $10.0million in due course. In January 2019 we took another tough decision to stop supporting Smart Antenna Technologies. When the demands of Smart Antenna Technologies' mainly Chinese customers shifted from licensing its antenna technology to 'last touch' volume manufacture of the antennae themselves, the change in customer requirements necessitated a significant increase in the amount of capital committed by Mercia to Smart Antenna Technologies. The decision was therefore taken in January 2019 not to provide further funding and as a result the business ceased trading shortly thereafter.

Although this has resulted in a disappointing write-off, my twenty years' experience of investing in technology companies tells me that it is far better to take these decisions and look at the strength of the remaining portfolio as a whole. Decisions like these should always be made from a position of risk and portfolio management and we always consider the opportunity cost of each £1 allocated to one of our assets compared to that £1 being invested in another.

During the year we conducted an in-depth review of our direct investment portfolio and allocated our time, energy and capital in a structured manner, leveraging the services of our newly formed Mercia Platform to help drive investee company growth. Mercia's Platform covers the four disciplines of talent resourcing, corporate advisory, legal and research, all of which we see as key to delivering investee company growth by helping management teams to scale their businesses. This supportive approach means that we can both help our portfolio management teams to take advantage of the opportunities ahead of them, as well as helping them to navigate the inevitable issues associated with growing and scaling young businesses.

Track record

Track record is crucially important for any specialist asset manager and our oldest technology fund, the RisingStars Growth Fund, was finally closed at the end of March 2019. It was raised in 2003 and targeted entrepreneurs and early-stage ideas across the North West of England, operating out of Mercia's second largest office in the heart of the city of Manchester. We invested across the geography from software, through MedTech, AgTech and FoodTech, to specialty Pharma, in some 35 deals. The fund spawned four listed businesses, Provexis, Science in Sport and Plant Impact, but the standout success was Blue Prism Group. We were the first investor in Blue Prism Group in 2004 when the founders, Alistair Bathgate and Dave Moss, came to us after they had won their first bespoke deal with Barclays. We invested £0.9million over the following few years to support their progress and help build their team. They moved to a channel partner model as their newly coined 'robotic process automation' software started to gain traction. From there the story is impressive, following its AIM listing in 2016 and stellar subsequent growth to a market value of c.£1.1billion. That early investment has now been realised in full and has resulted in a staggering c.£94million profit on the original investment cost.

Our first private equity fund is another regional fund, Coalfields Growth Fund, which has so far generated an IRR of 19% and a TVPI of 236%. This fund benefitted from a portfolio which has generated three successful exits to date.

Direct investment portfolio overview

We have had another year of good progress across the direct investment portfolio, resulting in net upward fair value movements of £3.9million. The overall uplift should be considered in light of the £4.0million write-off of Smart Antenna Technologies, where we took the tough but right decision to discontinue financial support.

We have seen the continued maturing of the direct investment portfolio with c.98% of the total portfolio value being represented by the top 20 investments. 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. £19.4million has been invested over the past year and investee company loan repayments have totalled £1.7million. As at 31 March 2019 the value of the Group's direct investment portfolio has increased to £87.7million from £66.1million, reflecting the net investment of £17.7million and net fair value gains of £3.9million.

Investment activity

As many of our direct investment portfolio companies look to scale their growth, our aim remains to build and/or maintain material equity stakes at c.20-40% in these assets, whilst increasingly looking to bring in new third-party capital.

We have continued to support our largest and most promising assets, with both capital and energy. £8.7million of the total amount of balance sheet capital invested in the year was invested into nDreams, Oxford Genetics, Warwick Acoustics, Intechnica, Impression Technologies and Voxpopme.

nDreams continues to develop its award-winning VR content; its own Shooty Fruity game won best PC Arcade game at the Viveport Awards in March 2019, making its first steps into the growing location-based entertainment ("LBE") market for VR. It also announced its first title, Phantom: Covert Ops, being developed for Oculus, which has recently received rave reviews and numerous awards at the global games Expo, E3 held in Los Angeles in June, including the Games Critics Award for best VR/AR game. Global enterprise VR hardware and software revenue is estimated to grow by 587% to $5.5billion in 2023, up from an estimated $800million in 2018, according to Business Insider Intelligence.

Oxford Genetics made significant commercial progress and closed a new £6.5million funding round in March 2019 led by Canaccord Genuity Wealth Management (formerly Hargreave Hale) and Invesco. According to data published by Allied Market Research the global synthetic biology market is expected to reach $38.7billion by 2020.

"In summary, and as is evident from the above, value-creating momentum continues and I am pleased to be able to share the positive progress that our investee companies are making alongside our active support. By using a highly structured approach over the last 12 months we have been able to refocus our energy and capital into the most promising assets, which we believe will deliver far greater value to all our shareholders and fund stakeholders alike."

CHIEF INVESTMENT OFFICER'S REVIEW continued

Warwick Acoustics continues to successfully pursue its goal of disrupting the $8.0billion automotive audio market. It launched its flagship premium headphone product, the APERIO, to global critical acclaim, further enhancing its brand, proving out its new automotive-grade transducer design and securing early commercial interest. On the back of this achievement, it has gained strong traction from the car industry, signing its first two design and development contracts with a major premium European car manufacturer. These contracts are helping to accelerate the growth of its pipeline of car companies seeking to adopt its premium audio solutions and should result in the company securing 'supplier ready' status with the automotive industry in early 2020.

Intechnica is a Manchester-based services and software product business with annual revenues of c.£6million. 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 £4.1million, with £2.0million from Mercia, to fund the ongoing commercialisation of its SaaS-based Netacea product offering. Statistics from Gartner estimate that the enterprise software market in 2019 will reach $427.0billion, up 7.1% from $399.0billion in 2018.

Impression Technologies has developed a proven, patented process for manufacturing advanced, light-weight high-strength components using aluminium. The process, known as Hot Form Quenching ("HFQ®") technology, offers significant savings in weight, cost and part complexity compared with existing forming technologies and enables designers to create complex shaped components using high-strength aluminium that are not otherwise possible today. HFQ® technology addresses substantial global markets including automotive, aerospace, mass transit, industrial and consumer electronics. Impression Technologies owns and operates a pilot pressing facility in Coventry, which opened in 2016. This facility now houses the world's first dedicated HFQ® hot forming press line. Impression Technologies' business model is to license its technology to Automotive OEMs and to their tier 1 suppliers. The in-house production line is used for process development and low volume supply to Aston Martin and others. During the year, Impression Technologies partnered with Novelis Inc., the world leader in aluminium rolling and recycling, to explore innovative ways to increase the broader adoption of aluminium through the hot stamping process.

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 and with revenues of c.$5.0million in 2018, c.95% up on the prior year, Voxpopme is operating in a market estimated to be worth $46.0billion in market research and $17.0billion in customer experience.

During the financial year we also invested £2.5million into two new direct investments, **W2 Global Data Solutions** and **Locate Bio**, both of which originated from the managed funds pipeline. In addition, we contributed £0.6million of balance sheet capital to four of our regional managed funds.

W2 Global Data Solutions is a SaaS business providing real-time identity verification services to prevent fraud and money laundering in a market estimated to grow from $14.4billion in 2016 to $33.2billion in 2021. The company targets global firms in regulated, government and business communities and is primarily focused on selling to the gaming, payments and foreign exchange markets on multi-year revenue contracts.

Locate Bio is a gene and cell therapy company developing a pipeline of next generation medicines which utilise its proprietary technologies for non-viral gene therapy and cell therapy. The company operates in the global regenerative medicine market which is projected to reach $38.7billion by 2024 from $13.3billion in 2019, at a CAGR of 23.8%. This predicted growth is largely driven by the rising prevalence of chronic diseases and genetic disorders, growing government investments in regenerative medicine research and the increasing number of regenerative medicine companies globally. The company is currently expanding the application of its technologies (IntraStem™ and TAOS®) into new therapy areas, beyond musculoskeletal, to provide further in-house development and partnering opportunities.

We have seen strong growth in the pipeline for direct investment across our sectors in the last 12 months through the increasing scale of our managed funds, which have deployed £30.5million from our venture funds alone into 61 companies. We will continue our aim of building excellent management teams within these businesses, which can scale before we commit our balance sheet capital. As a result, and as shown with Oxford Genetics above, we expect that in the future larger and increasingly syndicated investment rounds will be a growing feature of our direct investment portfolio.

Some notable businesses in our venture funds that are making strong progress include Axis Spine, a spinal implant innovator that is attracting significant attention from the US market, and Sense Bio, a developer of user-centred, handheld diagnostic test devices in the fields of infection and oncology.

Fair value movements

The total net fair value gain in the year amounted to £3.9million compared to £2.8million in the prior year. We have recognised notable fair value uplifts at nDreams (£1.1million), Intelligent Positioning (£1.3million), Faradion (£1.6million), Oxford Genetics (£0.6million), Medherant (£1.2million), The Native Antigen Company (£0.9million) and Voxpopme (£0.5million). These fair value uplifts are based on our existing valuation policy where there is either third-party involvement and pricing in an investment round (in most instances), independent third-party input to valuation, or the business is profitable and the valuation is based against market comparators. We have also released a previous fair value provision for Soccer Manager as the company's revenues have increased, and in our view its prospects have materially improved, as we have helped to engineer operational and market-facing improvements.

As well as the fair value write-off of Smart Antenna Technologies we also recognised a negative fair value movement of £0.5million on Concepta PLC, an investment which is listed on AIM so is marked to market at bid price. However, we have been pleased with the recent commercial progress that Concepta is now making, as shown by the recent agreement with Walgreen Boots Alliance, and so have continued to support the team under the oversight of Mercia's Chief Operating Officer Peter Dines, who has become a non-executive director on Concepta's board.

Third-party funds overview

Our third-party managed funds encompassing our venture (which includes c.£49million of EIS capital), private equity and debt funds are all performing well against their mandates.

In our primary regions of the Midlands and the North of England we manage allocations from the £250.0million Midlands Engine Investment Fund ("MEIF"), the £400.0million Northern Powerhouse Investment Fund ("NPIF") and the £125.0million North East Venture Fund ("NEVF").

Our £23.5million Midlands Engine Investment Fund Proof of Concept Fund ("MEIF POC") first invested in Locate Bio in April 2018, which subsequently became a direct investment six months later and has received significant further funds since the year end from both Mercia's balance sheet and via its third-party managed funds. In the North of England we manage c.£110million across the NPIF region in both venture and debt, with both mandates on target. Our newest fund covering the North East region of £27.5million was launched in April 2018 and made its first investments during the year.

In Scotland, we have significant relationships with a number of the leading universities, most recently the University of Edinburgh, and have used allocations from our EIS funds to lead an investment into Invizius, a company whose technology reduces the risk of cardiovascular disease among patients undergoing long-term dialysis.

Our newest £45.0million private equity fund invests in later-stage profitable SME businesses; supporting ambitious management teams by providing the focus, resources and finance required to move their companies onto the next level of growth. The fund operates across the UK, although makes a strength of its northern roots and has an experienced investment team, supported by two operating partners who regularly meet and advise management teams. The investment criteria of the fund starts with identifying management teams with a shared set of goals and typical investments will be into profitable, cash-generative businesses with a strong market position that can achieve rapid growth. During the year the fund invested £8.5million in total into an online aggregator car park booking site, ParkVia, and a specialist lifting equipment provider operating a depot network across the North of England and the Midlands, Quick Reach. Since the year end the fund has made two further investments including Total Resources, a temporary traffic management business which was a c.£8million deal that also included both our SME Loans Fund and North East Venture Fund.

Our debt team was active in managing three third-party debt mandates; £4.0million of Rosebud Finance on behalf of Lancashire County Council, the £40.0million EV SME Loans Fund backed by Greater Manchester Pension Fund and Santander, and the £51.0million NPIF Debt Fund (part of Mercia's £110.0million NPIF allocation) focusing on Yorkshire and the Humber. Our experienced debt team of 18 people operates across the country, but with a focus on the North of England, and typically provides term loans of between £0.1million and £1.0million to established and profitable SMEs which can demonstrate growth and an ability to service the requested levels of debt. All funds are operating to agreed performance measures and during the year the team advanced loans totalling £15.0million to 65 businesses.

We are now investing at a steady rate across our venture, PE and debt funds, creating a healthy pipeline of investments from which we can help shape business models, strategies and management teams, before making selective new direct investments using our balance sheet capital.

Post period end developments

Investment activities have continued apace since the year end with new funding rounds at Medherant and Locate Bio where we invested a further £1.5million and £1.8million, respectively. We have also continued to support Voxpopme as the company executes its plan to grow its annual recurring revenues ("ARR").

Concepta announced a new £2.3million placing in April, with Mercia contributing £0.8million, and subsequently the company announced the first pregnancies by early users of its MyLotus system.

nDreams announced its partnership with Oculus and the first title in development, Phantom: Covert Ops, which received positive, wide recognition at E3 in Los Angeles in June 2019, including winning the Games Critics Award for best VR/AR game.

Another fund investment, Clear Review, a SaaS business providing HR management tools, has become the Group's latest new direct investment with an initial £0.5million equity investment.

In summary, and as is evident from the above, value-creating momentum continues and I am pleased to be able to share the positive progress that our investee companies are making alongside our active support. By using a highly structured approach over the last 12 months we have been able to focus our energy and capital into the most promising assets, which we believe will deliver far greater value to all our shareholders and fund stakeholders alike. This portfolio discipline is continuing in the current year.

Julian Viggars
Chief Investment Officer
5 July 2019

Strategic report

BALANCE SHEET

nDreams

Location:
Farnborough
ndreams.com

An award-winning developer and publisher delivering world-leading interactive VR experiences. nDreams is a trusted partner to global entertainment businesses with clients including Oculus, Google, PlayStation VR and Microsoft. The company's journey has been impressive as a result of a hugely talented team that has worked in some of the world's most successful gaming studios. Most recently, post year end, nDreams announced its first title, Phantom: Covert Ops, in development for Oculus, the world leader in VR technology companies.

Oxford Genetics

Location:
Oxford
oxfordgenetics.com

Oxford Genetics operates in the synthetic biology market providing cutting-edge technologies and advanced techniques for drug and gene therapy development. The business has made considerable commercial progress, achieving a year-on-year revenue growth of 300% as well as closing six new licensing deals with world-leading biotech firms including Aldevron in the financial year ended 30 April 2019.

Intechnica

Location:
Manchester
Intechnica.com

A well-established specialist in website performance and security, Intechnica delivers consulting services in the performance and security of website applications and technical due diligence to blue chip organisations across the UK and internationally, including ASOS, Channel 4 and Avis and a growing number of leading private equity investors. First customers have been secured for the company's AI-based cybersecurity product, Netacea, developed utilising the company's extensive experience in this area. Revenue for the year ended 31 March 2019 exceeded £6.0million for the first time, an increase of more than 20% on the previous year.

Faradion

Location:
Sheffield
faradion.co.uk

Faradion is the world's leader in non-aqueous sodium-ion cell technology. The company holds 24 patents for its technology which delivers high-energy-density, safe and low-cost battery solutions for key applications including back-up power supplies, low-cost transportation and renewable energy storage. The technology delivers the performance of lithium-ion batteries at lead-acid prices but with significantly safer transportation benefits. The sector is forecast to grow from $65.0billion in 2016 to $100.0billion by 2024 according to a report published by World Economic Forum.

VENTURE

Enquiries

2,217

Invested

£30.5m

Transactions

61

These deals come to us via our university partners, our personal/non-executive director networks, through proactive analysis via research within Mercia and, importantly, shared across the Group via the different teams in the four asset classes under management. We are immensely proud of the RisingStars Growth Fund which was managed by our venture team. It has one of the best track records of all European VC funds and has returned over 5.5x original fund capital to managed fund limited partners as well as generating a profit share to Mercia Asset Management PLC (all of which was received in the previous reporting period).

Will Clark is one of our venture team's Fund Principals. He is joint Fund Principal for the Northern Powerhouse Investment Fund (NPIF Equity Finance) as well as having responsibility for the North West Fund for Venture Capital and the Mezzanine portfolio. A chartered accountant, before joining the Group in 2011 Will was previously a director at 3i with responsibility for a £500.0million portfolio of investments across the UK. Will has been working with regionally based growth and venture capital-backed companies since 1989, and in that time has been involved in almost 200 transactions.

blueprism®

Location:
Warrington

To find out more visit www.blueprism.com

Invested

£998,140

Blue Prism is considered the pioneer of robotic process automation ("RPA") which provides connected RPA intelligent software to automate and perform repetitive tasks. Mercia first invested in BluePrism through the RisingStars Growth Fund which saw the initial investment generate a rewarding 95x return. In 2018 the company's sales revenue increased c.125% to c.£55.2million. The company was valued on AIM at £1.1billion as at 12 July 2019.

"Mercia made its first investment in Blue Prism through the RisingStars Growth Fund in 2004 and remained a supportive investor for many years whilst the business scaled to the size it is today. We have been grateful for both the investment and the significant expertise of the investment team, in particular Julian Viggars, who has played an important role in our success."

Alistair Bathgate
CEO – Blue Prism

Strategic report

PRIVATE EQUITY

Enquiries

113

Invested

£8.5m

Transactions

2

Last year was the first full year following the EVGF II closing. We invested £8.5million into two great portfolio businesses which have real promise for significant future value. Our track record in the private equity space is impressive, with our previous two funds generating four exits and partial exits, including the Coalfields Growth Fund which has delivered an IRR of 19% and a TVPI of 236% to date.

Our private equity team is headed by Wayne Thomas. Wayne's role encompasses both new deal origination and leading the management of the private equity portfolio. He is a chartered accountant and joined the Group in 2006. Prior to that Wayne spent over 20 years advising and investing into SMEs and larger corporates across the UK including senior roles at Aberdeen Asset Managers Private Equity and in the corporate finance teams at both Ernst & Young and BDO where he advised companies, management teams and investors on a wide range of mid-market transactions.

Woodall Nicholson group

Location:
Bolton

To find out more visit www.woodall-nicholson.co.uk

Invested

£975,000

Woodall Nicholson is one of the oldest coachbuilding companies in the UK, dating back to the 1820s. Today the group has diversified and is now the market-leading manufacturer of a wide range of specialist vehicles including; hearses and funeral limousines, police and emergency service vehicles and even electric buses. Since the investment team began working with the business in 2014 it has grown its operating profit by 64.0% to £4.9million.

"Mercia has worked closely with the management team and syndicate investors to successfully grow and develop the business, achieving outstanding profitable revenue growth over the past five years."

Brian Davidson
Chairman – Woodall Nicholson

DEBT

Enquiries

462

Lent

£15.0m

Transactions

65

Our deals come to us from a variety of sources including banks and financial advisers, through proactive research, through sharing contacts across the Group and by co-investing alongside deals led by the private equity team. Our debt teams are looking for established and profitable businesses which we can help to grow using our fund capital and balance sheet structuring experience.

The debt team is headed by Paul Taberner. Paul is responsible for managing the third-party debt funds of the Group and implementing the agreed lending strategy. He has substantial experience in small and mid-size company financings, including successful investments in MBOs and development capital transactions across numerous business sectors. Prior to joining Mercia in 2005, Paul spent eight years with Barclays Ventures as regional director for the North of England and 15 years as a commercial banker with Barclays Bank across the North of England, also spending time overseas.

Location:
Harrogate

To find out more visit www.harrogatespring.com

Lent

£1.6m

With a history dating from 1571, Harrogate Spring is Britain's oldest bottled water and has been revered by royalty and enjoyed across the world for centuries. First bottled in 1740, it is 'The Original British Bottled Water' and quintessentially British. Through two different debt funds we have lent to the business on four separate occasions. In that time the business has trebled its turnover and is now highly profitable.

"Mercia is a valued partner to Harrogate Spring Water and has demonstrated this through a good understanding of our business and our related funding requirements. Our investment manager made the funding application and ongoing monitoring requirements as pain free as possible, allowing us to focus on growing our business. We look forward to developing the relationship further."

Damien Wilkinson
Finance Director – Harrogate Spring Water

Strategic report

CHIEF FINANCIAL OFFICER'S REVIEW

Positive momentum maintained across all Group activities

Net assets

£126.1m

2018: £123.5m

Unrestricted cash

£29.8m

2018: £49.4m

Martin Glanfield
Chief Financial Officer

In the year to 31 March 2019 Mercia Asset Management PLC experienced continuing positive momentum across both its balance sheet and fund management investing and lending activities.

Revenue (which excludes unrealised fair value movements) increased 4.7% to £10.7million (2018: £10.2million). The Group's revenue increase was largely derived from the full year impact of new fund management contracts won during the previous year. As referred to last year, 2018 revenue included one-off performance-related fund management fees totalling £1.2million.

Staff and administrative expenses increased by 13.9% to £12.1million (2018: £10.6million). The cost base increase arose mainly from the recruitment of additional investment staff in 2019 to manage and deploy the substantial new fund mandate wins of 2018. The Group now anticipates a levelling off of its cost base, as the additional investment and support staff required to invest the substantial fund mandate wins in both 2017 and 2018 have now largely been recruited.

Net expenses increased by £1.0million compared with 2018, largely as a result of average headcount increasing from 68 to 85 during the year. The Group's drive to minimise NAV erosion arising as a result of its operating model will continue.

During the year the Group invested £19.4million (2018: £21.3million) into 15 existing and two new direct investments (2018: 14 and three respectively). It also received investee company loan repayments of £1.7million (2018: £0.2million). Investment momentum has been positive at the start of the new financial year and is expected to selectively continue.

Net fair value increases during the year totalled £3.9million (2018: £2.8million) and as at 31 March 2019 the fair value of the Group's direct investment portfolio was £87.7million (2018: £66.1million). Net assets at the year end were £126.1million (2018: £123.5million) resulting in an increase in net assets per share (being net assets of £126.1million divided by 303,309,707 shares in issue) to 41.6 pence (2018: 40.7 pence).

Within total net assets, cash and short-term liquidity investments totalled £30.4million (2018: £52.9million), including £0.6million of cash held on behalf of third-party EIS investors (2018: £3.5million).

The net fair value increases contributed favourably to result in a 57.6% overall increase in the consolidated total comprehensive profit for the year to £2.6million (2018: £1.7million). This in turn has resulted in an increase in earnings per Ordinary share to 0.86 pence (2018: 0.55 pence).

Alternative performance measures

The Group believes that the measurement and reporting of both 'net expenses' and 'net assets per share' are important alternative performance measures of interest to investors. The reporting of net expenses enables a clear understanding of the impact of the Group's operating model on net asset value erosion, where operating costs exceed revenue.

Similarly, the reporting of net asset value per share provides an indication of the overall progress that the Group is making in terms of shareholder value creation over the medium term. Where there is a difference between net asset value per share and the Group's share price, that difference represents either a discount or premium to Mercia's net asset value.

Goodwill and acquired intangible assets

The consolidated balance sheet includes goodwill of £10.3million (2018: £10.3million) and acquired intangible assets of £0.6million (2018: £0.9million). £7.9million (2018: £7.9million) of the goodwill and all of the intangible assets value arose as a result of the Group's acquisition of Enterprise Ventures Group Limited in March 2016, with the balance of the goodwill arising on the acquisition of Mercia Fund Management Limited in December 2014. 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 charge of £301,000 (2018: £301,000) in the consolidated statement of comprehensive income represents the amortisation for the year ended 31 March 2019.

"Mercia Asset Management has a strong financial platform from which to drive growth in net assets."

Summarised consolidated statement of comprehensive income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Revenue	10,675	10,197
Other administrative expenses	(12,115)	(10,633)
Net expenses	(1,440)	(436)
Realised gains on disposal of investments	–	871
Fair value movements in investments	3,916	2,823
Share-based payments charge	(171)	(497)
Amortisation of intangible assets	(301)	(301)
Operating profit before exceptional item	2,004	2,460
Exceptional item	–	(1,125)
Finance income	562	274
Taxation	54	54
Profit and total comprehensive income for the financial year	2,620	1,663
Basic and diluted earnings per Ordinary share (pence)	0.86	0.55

CHIEF FINANCIAL OFFICER'S REVIEW continued

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

Revenue

Total revenue of £10,675,000 (2018: £10,197,000) comprised fund management fees, initial management fees from new investments, investment director monitoring fees and sundry business services income.

Other administrative expenses

Total other administrative expenses of £12,115,000 (2018: £10,633,000) consisted of all staff related and office, marketing and professional adviser costs.

Net expenses

Net expenses of £1,440,000 (2018: £436,000) represents total revenue less all staff and administrative expenses.

Fair value movements in investments

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of investments	8,622	8,699
Unrealised losses on the revaluation of investments	(4,706)	(5,876)
Net fair value gain	3,916	2,823

For the year as a whole, unrealised fair value gains arose in twelve (2018: nine) of the Group's 26 (2018: 26) direct investments at the year end. The largest fair value gain, being Faradion, was £1,625,000. There were three (2017: nine) fair value decreases, the largest being £4,048,000 for Smart Antenna Technologies which ceased trading during the year.

Share-based payments charge

The £171,000 (2018: £497,000) 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 2019. The year-on-year reduction is due to leavers during the year forfeiting their share options.

Amortisation of intangible assets

The amortisation charge of £301,000 (2018: £301,000) represents the amortisation of the acquired intangible assets of Enterprise Ventures for the year ended 31 March 2019.

Finance income

Finance income of £562,000 (2018: £274,000) comprised loan interest and redemption premiums received on loans repaid by investee companies during the year, as well as interest receivable earned on the Group's cash and short-term liquidity investments.

Taxation

The tax credit of £54,000 (2018: £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 £126,065,000 (2018: £123,470,000) were predominantly made up of the Group's direct investment portfolio, together with cash and short-term liquidity investments. The Group continues to have limited working capital needs due to the nature of its business.

Direct investment portfolio

During the year Mercia's direct investment portfolio grew to £87,659,000 (2018: £66,070,000). The table below lists the Group's investments by value as at 31 March 2019, including a breakdown of the net cash invested during the year, fair value movements for the year and the equity percentage of each investee company owned.

	Investment value As at 1 April 2018 £'000	Net cash invested Year to 31 March 2019 £'000	Fair value movement Year to 31 March 2019 £'000	Investment value As at 31 March 2019 £'000	Percentage held As at 31 March 2019 %
nDreams Ltd	12,979	1,029	1,112	15,120	45.5
Oxford Genetics Ltd	9,090	433	638	10,161	33.3
Warwick Acoustics Ltd	6,152	1,500	252	7,904	62.5
Intechnica Ltd	4,021	2,000	656	6,677	32.0
Ton UK Ltd t/a Intelligent Positioning	4,216	–	1,257	5,473	28.8
Impression Technologies Ltd	3,107	2,268	6	5,381	31.4
Medherant Ltd	3,453	524	1,228	5,205	31.9
VirtTrade Ltd t/a Avid Games	2,538	1,400	–	3,938	28.4
Faradion Ltd	1,299	601	1,625	3,525	18.1
Voxpopme Ltd	1,000	1,500	526	3,026	21.3
The Native Antigen Company Ltd	1,942	–	921	2,863	32.7
PsiOxus Therapeutics Ltd	2,377	–	–	2,377	1.5
Edge Case Games Ltd	2,000	300	–	2,300	21.2
Soccer Manager Ltd	1,199	500	400	2,099	31.6
W2 Global Data Solutions Ltd	–	2,000	–	2,000	17.4
LM Technologies Ltd	1,913	–	–	1,913	41.4
sureCore Ltd	1,500	334	–	1,834	24.4
Eyoto Group Ltd	1,750	4	1	1,755	18.8
Crowd Reactive Ltd	1,650	(61)	–	1,589	26.2
Concepta PLC	1,306	365	(538)	1,133	18.2
Locate Bio Ltd	–	500	–	500	6.0
Smart Antenna Technologies Ltd	2,148	1,900	(4,048)	–	n/a
Other direct investments	430	576	(120)	886	n/a
Total	**66,070**	**17,673**	**3,916**	**87,659**	**n/a**

Investee company loan repayments

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, as well as minimising net asset erosion from net expenses. The Group supports its direct investments via both equity and loan instruments. During the year loan repayments of £1,711,000 were received from Crowd Reactive, Edge Case Games and Smart Antenna Technologies.

Cash and short-term liquidity investments

At the year end, Mercia had total cash and short-term liquidity investments of £30,398,000 (2018: £52,908,000) comprising cash of £25,210,000 (2018: £42,908,000) and short-term liquidity investments of £5,188,000 (2018: £10,000,000), including £629,000 (2018: £3,473,000) 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 2019 £'000	Year ended 31 March 2018 £'000
Opening cash and short-term liquidity investments	52,908	63,829
Net cash used in operating activities	(5,080)	(442)
Net cash used in direct and other investing activities	(17,234)	(10,479)
Net cash used in financing activities	(196)	–
Cash and short-term liquidity investments at the year end	**30,398**	**52,908**

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 Asset Management 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
5 July 2019

PRINCIPAL RISKS & UNCERTAINTIES

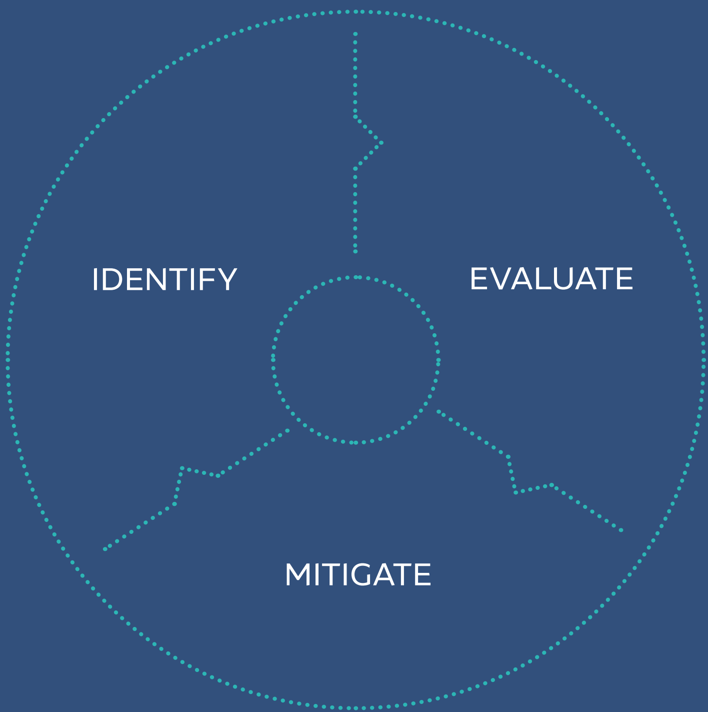
RISK FRAMEWORK

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 Group also considers identified risks under three categories:

Internal – including the Group's strategy and business planning

External – for example, competitor risk, regulatory and legal risk

Operational – including internal systems and controls, people and talent risk, compliance risks such as financial crime



The Board identifies, evaluates, mitigates and then monitors 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, 'Project Saturn', provides reasonable, but 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, particularly when investing in young companies.

During the year Mercia has continued to build on its established risk management framework with a specific focus on regulatory compliance, cybersecurity, internal investment procedure audits and talent management. The Group has also considered the possible effects, on both it and its investee companies, of the United Kingdom leaving the European Union. The risk management framework has been further strengthened during the year by the formation of the Senior Management Team ("SMT"), facilitating early identification, discussion and escalation of any new risks or increased risk exposure.

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 flows 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 the Group's fund management operation. The funds have a fail fast policy, which means that early-stage businesses which do not achieve commercial traction within a reasonable timeframe 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 teams, do not receive direct Group investment. Secondly, the 'real-time' due diligence being undertaken by the Group's investment teams during an 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 five direct investments represent 51.7% of the total portfolio by value.	The Group currently directly invests across four sectors and seeks 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, and therefore specific sectors, that dominate the total portfolio by value. Technology sector evolution and the specific areas on which Mercia focuses are kept under review and it is possible that the Group's areas of investment focus and expertise may evolve over time.
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.
The Group may not be able to meet future financial obligations or future growth may not occur because of an inability to raise additional balance sheet capital if required.	A shortage of available capital for direct investment and operating purposes would necessitate a change in strategy to one of capital conservation.	A number of Mercia's direct investments could be sold to maintain sufficient liquidity.
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 71% by value of the 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.

PRINCIPAL RISKS & UNCERTAINTIES continued

RISK	POSSIBLE CONSEQUENCES	MITIGATION
The Group and its portfolio companies are subject to competition risk.	The Group operates a direct investment model which is similar in some respects to other investing groups and, as a result, may find itself in competition when new investment opportunities arise. In addition, the direct investment portfolio businesses are predominantly focused 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 and inclusive working environment, referred to internally as 'One Mercia', 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. The introduction of Goalspan, an online performance management and personal development system, has enhanced Mercia's ability to manage performance and career progression.
Mercia subsidiaries may cease to be authorised by the Financial Conduct Authority ("FCA").	Certain Mercia subsidiaries are 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 it acts fairly at all times and with integrity, honesty, skill and diligence in conducting its investment activities. The Group regularly reviews the financial position of each Mercia subsidiary to ensure that adequate financial resources are maintained in accordance with FCA rules. The Group also ensures that it 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 it communicates information to fund investors in a way which is fair, clear, timely and not misleading. It 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 several experienced and FCA-approved personnel. Mercia applies policies, in compliance with FCA requirements, across the Group and is currently implementing the Senior Managers and Certification Regime to ensure that its senior staff are appropriately mapped to the new regime and that all staff understand their obligations to act with integrity. Mercia has a whistle-blowing policy and reporting structure in place – no reports have been made in the period.
The United Kingdom's forthcoming exit from the European Union ('Brexit') may impact upon both the Group and its portfolio companies.	Future European trade barriers, tariffs or border controls may impact portfolio company growth prospects. Additional equity capital may be more difficult to raise during periods of economic turbulence. Portfolio companies may find hiring and retaining non-UK resident, highly skilled staff more difficult eg software engineers.	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 capital to exercise investment and operational flexibility. No short-term impact on immigration is envisaged. Only once the final outcome of Brexit is known will the future employment landscape become clearer.

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 are tested annually. The Group continues to engage with its external IT and cybersecurity consultants to monitor and periodically test its cyber defences.
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. Mercia has established an award-winning 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.	Dr 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. 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.

Events after the balance sheet date

Other than the continuing completion of approved direct investments, the resignation of Susan Searle on 2 July 2019 and the change of Company name to Mercia Asset Management PLC on 4 July 2019, there have been no other material events since the balance sheet date.

Approval

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

Dr Mark Payton
Chief Executive Officer
5 July 2019

BOARD OF DIRECTORS

At the heart of all successful businesses are balanced teams. Mercia Asset Management 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 Ltd (to Polytherics Ltd) 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 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 OptiBiotix Health plc. Julian leads the equity investment team as well as managing the pipeline of Mercia's future direct investments. 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. Julian played a leading role in securing the managed funds contracts awarded by the British Business Bank and North East Fund Ltd and was promoted to Chief Investment Officer in April 2018. Julian has a geology with chemistry degree from the University of Southampton and qualified as a chartered accountant with accountants Smith & Williamson.

Ian Metcalfe
Non-executive Chair

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. Ian is currently a director and chair of Commonwealth Games England and a director of the Board of the Organising Committee of the Birmingham 2022 Commonwealth Games. He is also a non-executive director of the global waste management group TRRG Holdings Ltd and a non-executive director of the AIM listed Arena Events Group plc. 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. He became Non-executive Chair on 2 July 2019.

Ray Chamberlain
Non-executive Director

Ray is an entrepreneur with an established track record of shareholder value creation. Until 1997, Ray was executive chairman and the principal shareholder in Forward Group PLC, which he grew from a start-up company in 1978 to become one of Europe's leading high technology printed circuit board manufacturers, listed on the Main Market of the London Stock Exchange. In 1997 Forward Group accepted a £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 Asset Management through its first 18 months as a listed company, moved to a non-executive position in May 2016.

Dr Jonathan Pell
Non-executive Director

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 Plumb OBE
Non-executive Director

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 served as one of Prime Minister David Cameron'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

Mercia's senior management team, led by Chief Operating Officer Peter Dines, has day-to-day responsibility for all of the Group's investment activity and support functions. They are all subject matter experts with many years of experience and success.

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

Peter is responsible for overseeing the operational aspects of the Group, a number of portfolio investments, the Mercia EIS Funds and leads the Senior Management Team. Prior to joining Mercia in 2015, Peter had been involved with several turnarounds and exits, including the acquisition of Surgicraft's loss-making UK business where, as managing director, sales quadrupled within three years and the business was subsequently sold to a private equity-backed business, and Diagnostic World, a fast-growing diagnostic provider to the NHS.

Ceri Bailey
Group Financial Controller

Having joined Mercia immediately post IPO, Ceri reports to the Chief Financial Officer and has day-to-day responsibility for all aspects of Mercia's management accounting and financial reporting, whilst ensuring the integrity of the Group's internal control environment. Particular areas of expertise include implementing accounting and management information systems, process improvement, developing finance policies and embedding clear procedures and processes. Ceri is a chartered accountant with over 20 years' experience working in senior financial roles, predominantly within listed businesses operating in the software and manufacturing sectors.

Rosie Bhattacharjee
Group Compliance Director

Rosie has responsibility for group-wide compliance including FCA registrations, CASS Operational Oversight and Money Laundering Reporting Officer for the Group's FCA-regulated entities. Reporting to the Chief Financial Officer and the Audit Committee, Rosie joined the Group in 2017. Rosie has a background in FCA regulation and compliance, having joined the regulator where she worked for a decade followed by a period in consultancy, advising a range of regulated firms, including private equity and venture capital firms, stockbrokers and fund managers.

Will Clark
Fund Principal – Venture

Will is joint Fund Principal (with Julian Viggars) for the Northern Powerhouse Investment Fund (NPIF Equity Finance) as well as having responsibility for the North West Fund for Venture Capital and the Mezzanine portfolio. A chartered accountant, before joining the Group in 2011 Will was previously a director at 3i with responsibility for a £500.0million portfolio of investments across the UK. Will has been working with regionally-based growth and venture capital-backed companies since 1989, and in that time has been involved in almost 200 transactions.

Julian Dennard
Fund Principal – Venture

Julian is the Fund Principal for the Midlands Engine Investment Fund Proof of Concept Fund ("MEIF POC") with responsibility for investment across the wider Midlands region. His focus is to invest in high-growth technology businesses across the whole of the area, with a particular focus on the Software & the Internet, and the Electronics, Materials, Manufacturing & Engineering sectors. Prior to joining Mercia in 2016, Julian was a partner for over 10 years with Technology Venture Partners LLP/YFM Equity Partners and an associate director for KPMG Corporate Finance in London and Sydney between 2000 and 2006.

Michelle Heaselgrave
Head of People & Talent

Michelle leads our People & Talent function and is responsible for delivery of our people strategy, engagement and embedding our people processes group-wide. An experienced HR generalist, Michelle has worked across multiple sectors and globally for small start-ups and large enterprises. She is well versed in working with agility and pace in split strategic/operational roles and much of her previous experience lies with fast growing tech-based organisations, creating process and enabling organisational growth and transformation. Michelle joined Mercia in 2017, having been involved in her previous role with the scale-up and successful exit of a tech consultancy, based in the South of England.

Katy Horrocks
Director of Marketing

Katy is responsible for the Group-wide marketing strategy and marketing operations, including providing support to the Executive Directors with investor relations, as well as fund marketing, event management, PR and brand management. Katy joined the Group in 2014 and was previously employed by a division of the Bibby Line Group and has worked in a senior management capacity for more than 15 years. She has a wealth of experience across all aspects of marketing and has led key business change projects, including rebrands and a large software development initiative.

John Simpson
Finance Director

John is a highly respected financial professional and a member of all fund investment committees. He joined the former Enterprise Ventures Group as Finance Director in 2006 and has over 30 years' experience in managing all aspects of venture and private equity as an investor, portfolio director and in fundraising. A chartered accountant, John spent 11 years with Murray Johnstone Private Equity, followed by four years with Aberdeen Murray Johnstone Private Equity as portfolio director and a member of the executive management team. He is a former member of the British Venture Capital Association Hi-tech Committee and the VCT Fund Managers' Forum.

Paul Taberner
Fund Principal – Debt

Paul is responsible for managing the third-party debt funds of the Group and implementing the agreed investment strategy. He has substantial experience in small and mid-size company financings, including successful investments in MBOs and development capital transactions across numerous business sectors. Prior to joining Mercia in 2005, he also spent eight years with Barclays Ventures as regional director for the North of England and 15 years as a commercial banker with Barclays Bank across the North of England, also spending time overseas.

Sarah Thawley
Head of Legal

A qualified solicitor, Sarah is the Head of Legal and provides both legal advice and manages the Group's relationships with legal advisers. She joined Mercia from private practice in 2018 as an experienced corporate lawyer. Sarah previously specialised in transactional work including venture and growth capital investments, management buy-ins and buy-outs, and mergers and acquisitions.

Wayne Thomas
Fund Principal – Private Equity

Wayne is the Fund Principal for Mercia's private equity team and his role encompasses both new deal origination and leading the management of the Private Equity portfolio. He is a chartered accountant and joined the Group in 2006. Prior to that Wayne has spent over 20 years advising and investing into SMEs and larger corporates across the UK including senior roles at Aberdeen Asset Managers Private Equity and in the corporate finance teams at both Ernst & Young and BDO where he advised companies, management teams and investors on a wide range of mid-market transactions.

Angela Warner
Head of Portfolio and Platform

Angela heads up the newly-formed Platform Team which offers support to both the Group and portfolio companies in areas such as recruitment, corporate finance, research and legal. Prior to joining Mercia in 2018, Angela had over 20 years' experience in venture capital and private equity including a partner role at YFM Equity Partners, where she specialised in portfolio management including trade sales, secondary buyouts and fundraisings.

Ian Wilson
Fund Principal – Venture

Ian is Fund Principal for the North East Venture Fund which is focused on early-stage and technology investments in the region. Ian is a chartered accountant and holds the Investment Management Certificate from the CFA. He is an experienced investment professional having fulfilled both M&A advisory positions in practice and investment management roles in early-stage funds since 2006. He has taken a number of software companies from first investment through to exit in recent years. Ian joined Mercia in 2017 and also assists with the delivery of the venture capital and investment modules at Alliance Manchester Business School.

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements of Mercia Asset Management PLC (formerly Mercia Technologies PLC) for the year ended 31 March 2019. The change of name better reflects its current trading activities and business model.

Results and dividends

The profit for the year was £2,620,000 (2018: £1,663,000). The Directors do not recommend the payment of a dividend (2018: £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 33 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:

Ian Roland Metcalfe	
Dr Mark Andrew Payton	
Martin James Glanfield	
Julian George Viggars	(appointed 17 April 2018)
Matthew Sidney Mead	(resigned 17 April 2018)
Susan Jane Searle	(resigned 2 July 2019)
Raymond Kenneth Chamberlain	
Dr Jonathan David Pell	
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 Asset Management PLC is shown in the Remuneration Report on page 48.

Directors' indemnities

Mercia Asset Management 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 25 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2019, 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]	34,072,336	11.2
Forward Nominees Limited[1]	16,481,456	5.4
NFU Mutual Insurance Society	13,860,000	4.6
Baillie Gifford & Co	11,567,100	3.8

1 Shareholdings connected to Ray Chamberlain.

Political donations

During the year ended 31 March 2019 the Group made no political donations (2018: £nil).

Employees

The Group employed an average of 85 (2018: 68) staff throughout the year and is therefore of a size where it is not necessary to have introduced a formal employee consultation process. However, and as more fully set out in the Corporate, Employee and Social Responsibility review, 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, talent management encompassing recruitment, retention, communication, training and performance management remains an important area of focus.

The Group operates a discretionary annual bonus scheme for all of its employees with bonuses being awarded based on both their and the Group's overall performance, against defined objectives which encompass the Group's four core values.

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
5 July 2019

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 5 July 2019 and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

CORPORATE GOVERNANCE REPORT

Non-executive Chair's corporate governance statement

As Non-executive Chair, I have overall responsibility for implementing corporate governance within Mercia Asset Management PLC (formerly Mercia Technologies PLC) ('Mercia', the 'Company' or the 'Group'). Working with the Company Secretary, I am responsible for our corporate governance standards. The Board is collectively responsible for setting the tone and culture of the Company and promoting good corporate governance.

Mercia has been a member of the Quoted Companies' Alliance ("QCA") since 2015 to further its understanding of, and adherence to, good corporate governance practice. While adherence to the QCA's Corporate Governance Code (the "QCA Code") was not mandatory at that time, the Group sought to follow its recommendations where practical. For Mercia, 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.

In March 2018 the London Stock Exchange introduced a new requirement for companies admitted to trading on AIM to adopt and comply with a recognised corporate governance code by 28 September 2018. Mercia formally adopted the QCA Code on 21 September 2018. It sets out 10 corporate governance principles and requires the Group to publish certain related disclosures; these appear in this section of the Annual Report and on our website. This information will be reviewed annually and the date of each review will be noted on our website.

Our primary means of communicating our corporate governance structure is through our Annual Report and our website disclosures. When on occasions specific questions are raised by private individual shareholders and/or institutional investors on such matters, we engage directly with those shareholders, generally through either the Chief Executive Officer or the Chief Financial Officer. I also meet from time to time with our leading institutional investors to maintain an open dialogue in respect of progress against Mercia's business objectives and any other matters which our shareholders wish to raise. I set out below how the Board is led, matters specifically reserved for it, our risk framework and governance structures. Mercia's Directors, both Executive and Non-executive, believe in robust corporate governance, and we concur with the principles of the QCA Code, in that it is key to the long-term success of the Company – by helping, inter alia, to improve performance and mitigate risk.

A few words about our corporate culture. We communicate our corporate culture through regular staff communications, an induction programme for all new joiners and, most important of all, through the way the Executive Directors conduct themselves. We promote openness and respectfulness in all our dealings. Our relatively flat management structure and internal communication channels enable us to monitor that ethical values are being respected and that the state of our corporate culture remains strong – both from an internal and external perspective. Our purpose and core values are communicated regularly to all staff and form part of our performance management framework. Furthermore, all employees are encouraged to contribute to our 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 our open and inclusive culture. Given the Group's significant growth since IPO, Mercia's people and talent management now encompasses recruitment, retention, communication, training and performance management; all important areas of focus where our staff are our most important asset. Mercia actively encourages open dialogue between all staff and we hold regular face to face gatherings, both formal and informal, to elicit feedback and gauge how our values are being maintained throughout the business.

Finally, from an external perspective 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 within Mercia who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher updates.

The Directors recognise the importance of sound corporate governance and fully supported the adoption of the QCA Code. We remain committed to delivering the long-term success of the Group through an effective framework of leadership, management and controls. In all its activities, the Group aims to be commercial and fair, to display integrity and professionalism and to have due regard for the interests of all of its investors, employees, suppliers, local communities and the businesses in which the Group invests.

Board composition

The Chief Financial Officer is also the Company Secretary. The Board considers that it contains a range of skills, knowledge, experience and backgrounds that is appropriate for the business. Furthermore, the Board members are of sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group. The Board believes that it operates in an open and constructive manner and works effectively. Given the Group's evolution as a specialist asset manager it intends to appoint an additional Non-executive Director with a relevant background in due course.

Brief biographies of the Directors are set out on pages 34 and 35. Their membership of committees is set out on page 41 and 42.

Independence of Non-executive Directors

The Board considers many criteria in assessing the independence of the Non-executive Directors including the criteria recommended by the QCA Code. The Non-executive Chair and Non-executive Directors are all considered by the Board to be independent of management and not influenced by any relationship which could interfere with the exercise of their independent judgement. Notwithstanding this conclusion, Ray Chamberlain is interested in 20.1% of the Company's issued share capital.

Board operation

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, authorising all material direct investment decisions and all corporate transactions, ensuring effective communication with shareholders and approving changes to Board membership and structure.

Board effectiveness

In April 2019 a board effectiveness review was undertaken. Belinda Hudson Limited ("BHL"), experts in enhancing board effectiveness, was appointed to undertake the externally facilitated review after a tender exercise. BHL has not provided any other service to the Company during the year.

The process comprised a review of board and committee papers over the preceding year, and confidential one-to-one discussions between BHL and members of the Board and executive team. BHL compiled a report which identified what was working well and those areas where there was scope for development. The report was discussed at a Board meeting in June 2019 and actions were subsequently agreed to implement the areas for development.

Key insights included:

- refreshing the skills matrix and reviewing the composition of the Board to ensure that the Non-executive Directors bring the skills and experience necessary to meet the future needs of the Company;
- reviewing the extent of the Board's involvement in relation to the oversight of balance sheet investments;
- reviewing the Board meeting agenda to ensure that there is strong strategic focus and all matters within the Board's remit are covered;
- encouraging the Executives to be clear on what they are seeking from the Board when they present investment proposals or other papers;
- creating more opportunities for the Non-executive Directors to interact with a broader range of employees; and
- including more time in the Board calendar for the Non-executive Directors to meet without the Executives present.

Board meetings

The Board meets formally for a minimum of eight times each year. In addition, the Non-executive Directors communicate directly with the Executive Directors between Board meetings. The Board holds two dedicated meetings each year to discuss strategy, the most recent one being held in March 2019.

Directors are expected to attend all meetings of the Board and the committees on which they sit, and to devote sufficient time to the Group's affairs to enable them to fulfil their duties as Directors. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting are discussed in advance with the Chair so that their contribution can be included in the wider Board discussion.

During the year to 31 March 2019 eight Board meetings occurred. Details of attendance at scheduled Board and committee meetings during the year is as follows:

Director	Board	Audit	Remuneration	Nominations
Ian Metcalfe	8/8	2/3[2]	3/3	2/2
Dr Mark Payton	8/8	3/3[1]	3/3[1]	–
Martin Glanfield	8/8	3/3[1]	3/3[1]	1/2[1]
Julian Viggars	8/8	1/3[1]	1/3[1]	–
Ray Chamberlain[3]	8/8	2/3[2]	1/3[2]	2/2
Dr Jonathan Pell	8/8	3/3	1/3[2]	2/2
Caroline Plumb OBE[4]	7/8	3/3	3/3	1/2[2]
Susan Searle	8/8	3/3	3/3	2/2

1 Attended by invitation.
2 The composition of the Committee changed during the year, as outlined below.
3 Ray Chamberlain is entitled to appoint an alternate Director in his absence.
4 Caroline Plumb attended all meetings held since her appointment on 12 June 2018.

Board committees

The Board delegates specific duties and responsibilities to certain committees and has established a Nominations Committee, an Audit Committee and a Remuneration Committee and, as described more fully below, except in respect of the Remuneration Committee, whose report is set out on pages 45 to 48 of this Annual Report. On 26 November 2018 the Board decided to reduce each committee's composition to three Non-executive Directors per committee, rather than as had previously been the case, with all five Non-executive Directors sitting on all three committees. This decision was taken so as to bring more specialised focus to the work of each committee. The Company Secretary attends all Committee meetings by invitation. Subsequent to Susan Searle's resignation on 2 July 2019, Ian Metcalfe became Chair of the Nominations Committee and re-joined the Audit Committee.

Nominations Committee

The Nominations Committee is responsible for identifying and nominating members of the Board and recommending the composition of each committee of the Board, including the Chair of each committee, together with evaluating the balance of skills, knowledge, experience and independence of the Board. The Committee also considers succession planning for Executive Directors, Non-executive Directors and other senior executives.

During the year the Committee comprised Susan Searle as Chair and all four other Non-executive Directors up until 26 November 2018, after which Susan Searle remained as Chair and the other Committee members were Ian Metcalfe and Dr Jonathan Pell. The Nominations Committee met twice during the year and may also meet at other times if so required. Both meetings were fully attended.

CORPORATE GOVERNANCE REPORT continued

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 compliance, 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 any non-audit services by the external statutory auditor.

The Audit Committee will monitor the need for a dedicated internal audit function. During the year the Committee comprised Dr Jonathan Pell as Chair and all four other Non-executive Directors up until 26 November 2018, after which Dr Jonathan Pell remained as Chair and the other Committee members were Susan Searle and Caroline Plumb OBE. 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.

The QCA Corporate Governance Code

From the date of our Admission to trading on AIM in December 2014, we have made robust corporate governance part of our culture and business values. Mercia's governance framework is not static and will continue to evolve over time.

Set out below is how Mercia complies with the 10 key principles set out in the QCA Code.

	Governance principles	Compliant	Explanation	Further reading
Deliver growth	1. Establish a strategy and business model which promote long-term value for shareholders	✓	The Strategic Report section of this Annual Report clearly explains Mercia's business model and strategy in detail, including how it expects to create long-term value for shareholders. A key strand of Mercia's strategy is its investment policy, which is included in the AIM Rule 26 section of its website at www.mercia.co.uk.	Pages 2 to 33 of this Annual Report and the AIM Rule 26 section of the Group's website
	2. Seek to understand and meet shareholder needs and expectations	✓	Mercia's Executive Directors participate in institutional and retail investor roadshows throughout the year and following the announcement of its annual and interim results. The Group's Chair also meet with existing shareholders from time to time as do the Executive Directors. Sector specific Investor Relations updates are published periodically. Capital Market Days, to which all shareholders are invited, are held from time to time. The Group also uses its Annual General Meeting as an opportunity to communicate with its shareholders.	Page 40 of this Annual Report and the AIM Rule 26 section of the Group's website
	3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	✓	Mercia's Annual Report identifies its key stakeholders within the Corporate, Employee and Social Responsibility section and how seriously the Group takes its social responsibilities.	Pages 16 to 17 of this Annual Report and the AIM Rule 26 section of the Group's website
	4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	✓	The Group's approach to risk management together with the principal risks and uncertainties applicable to Mercia, their possible consequences and mitigation are set out in the Principal Risks and Uncertainties section of this Annual Report. The Board reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified – both risk tolerance (focusing on Mercia-specific internal, external and strategic risks) and risk appetite (specifically in terms of the Group's investing policy).	Pages 30 to 33 of this Annual Report and the AIM Rule 26 section of the Group's website
Maintain a dynamic management framework	5. Maintain the Board as a well-functioning, balanced team led by the Chair	✓	The Board has a formal schedule of matters reserved for its approval and is supported by the Nominations, Audit and Remuneration Committees. All Directors are required to devote sufficient time to carry out their role. The Governance section of Mercia's Annual Report details the composition of its Board and Committees. These are also included within the Investor Relations section of its website, under the 'Organisational Structure' page.	Pages 40 to 42 of this Annual Report and the AIM Rule 26 section of the Group's website

	Governance principles	Compliant	Explanation	Further reading
	6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	✓	The Board is satisfied that, between the Directors, it has an effective and appropriate balance of experience, skills and capabilities. To ensure that the Directors maintain appropriate skills they are provided with training when identified as appropriate by the Chair. Mercia's Annual Report includes a biography of each Board member. These are also included within the Investor Relations section of its website, under "Meet the Board". These list the current and past roles of each Board member and also describe the relevant business experience that each Director brings to the Board, plus their academic and professional qualifications. This Annual Report describes and explains where external advisers have been engaged (e.g. by the Remuneration Committee in 2016). Internal advisory responsibilities, such as the role performed by the Company Secretary in advising and supporting the Board, are also described in this Annual Report.	Pages 34 to 35 of this Annual Report and the AIM Rule 26 section of the Group's website
	7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	✓	The Board regularly considers and evaluates its own performance and that of its individual members. An externally-facilitated Board evaluation and effectiveness review was undertaken during 2016/17 and its results were considered carefully by the Board. A second externally-facilitated Board effectiveness review took place in April 2019 and the recommendation arising from of this review are set out in this Annual Report.	Page 41 of this Annual Report and the AIM Rule 26 section of the Group's website
	8. Promote a corporate culture that is based on ethical values and behaviours	✓	The Board believes that the promotion of a corporate culture based on sound ethical values and behaviours is essential to creating a workplace environment that allows people to flourish and that this will contribute to enhancing shareholder value. Within this Annual Report, the Chair's statement includes specific reference to people and culture. The Corporate, Employee and Social Responsibility section of the Strategic Report includes a section on business ethics and further details on how Mercia's culture is consistent with the Group's objectives, strategy, business model and approach to risk management. The Remuneration Report refers to the Executive Directors' KPIs – those for 2018/19 and 2019/20 include Mercia's cultural values.	Pages 16 to 17 and page 45 of this Annual Report and the AIM Rule 26 section of the Group's website
	9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	✓	The Board is collectively responsible for the long-term success of Mercia. It has a schedule of matters reserved for its approval which covers the key areas of the management and governance of the Group. This Annual Report details the composition and terms of reference of its Board and Committees. These are also included within the Investor Relations section of its website.	Pages 40 to 42 of this Annual Report and the AIM Rule 26 section of the Group's website
Build trust	10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	✓	Mercia's Annual Report includes disclosure of Board Committees, their composition and where relevant, any work undertaken during the year. It includes a detailed Remuneration Report. Mercia's website includes all historic Annual Reports, results announcements, results presentations and other governance-related material, including notices of all AGMs. These can be found in the Investor Relations section, under Regulatory News. This section of the website also includes the results of all AGMs.	Pages 40 to 42 and pages 45 to 48 of this Annual Report and the AIM Rule 26 section of the Group's website

CORPORATE GOVERNANCE REPORT continued

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 company of the size and complexity of Mercia Asset Management. 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 controls 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 the Group's internal policies, communicated to all employees. 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 companies.

Investor relations

The Group is committed to developing and maintaining open channels of communication with its shareholders and the mercia.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 24 September 2019.

Ian R Metcalfe
Non-executive Chair
5 July 2019

REMUNERATION REPORT

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chair, the Executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including where appropriate 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 2019 the Remuneration Committee comprised Ian Metcalfe as Chair, Susan Searle, Ray Chamberlain, Dr Jonathan Pell and Caroline Plumb OBE (from the date of her appointment on 12 June 2018) until 26 November 2018. From that date the Committee comprised Ian Metcalfe as Chair, Susan Searle and Caroline Plumb OBE. The Remuneration Committee meets at least twice a year and otherwise as required. During the year the Committee met three times formally, with all meetings being fully attended, and on several 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 still relatively early stage in its development, there remains natural tension between 'affordability' and the need to 'attract and retain talent' in what remains a 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 its relatively early stage of development.

Annual bonuses – 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 – asset management 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 1x base salary. Having taken recent soundings from both the Group's Nominated Adviser and remuneration specialists the Committee has agreed in principle to continue with this policy for the next three years to 31 March 2022, although this will be reviewed annually.

Having carefully considered these and other recommendations, the Committee adopted them as the Group's performance-focused remuneration policy. Having agreed to a maximum bonus of 100% of base salary for exceptional performance for 2018/19, the Committee determined that any bonus award would be payable in cash up to 50% of base salary with the remainder in deferred shares. The agreed criteria for determining the ultimate 2018/19 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. 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 core values – 20% weighting

Having considered the performance of the Group and the Executive Directors against each of these criteria, the Committee awarded bonuses to Executive Directors between 45% and 46% of their base salary for 2018/19.

The Committee has also agreed to a maximum bonus of 100% of base salary for exceptional performance for 2019/20, with the bonus award again payable in cash up to 50% of base salary and the remainder in deferred shares. The agreed criteria for determining the ultimate 2019/20 award are:

1. Material growth in assets under management – 30% weighting
2. Qualitative and quantitative progress by the direct investment portfolio – 40% weighting
3. Operational efficiency – 10% weighting
4. Subjective measure of performance by each Executive Director reflecting their specific areas of responsibility and influence, including Mercia's core values – 20% weighting

REMUNERATION REPORT continued

The Committee will continue to monitor the affordability and suitability of the Group's remuneration policy and performance criteria and will maintain informal dialogue on this subject with both the Group's Nominated Adviser and remuneration specialists.

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
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

The Executive Directors have voluntarily agreed to no base salary increase for 2019/20, as part of the Group's drive towards profitability in its day-to-day operations.

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 Asset Management 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 (being 17 December 2019) 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.

In accordance with the recommendations of the 2016 remuneration review, further options have been issued in subsequent years to new joiners. In the year to 31 March 2019 additional options were also granted to the Executive Directors. The total number of options in issue at the year end was 13,413,000 (2018: 11,702,000).

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 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 Asset Management operates carried interest plans for the Executive Directors and certain other senior investment-focused staff ('Plan Participants'). Each CIP will operate in respect of direct investments made by Mercia Asset Management 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. The second plan period ran from 1 April 2017 until 31 March 2019. The third plan period runs from 1 April 2019 until 31 March 2021.

Once Mercia Asset Management 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, including taking account of any investment losses. Plan Participants' carried interest is subject to good and bad leaver provisions.

Mercia Asset Management also 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 in December 2014 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 (audited)

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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Executive Directors										
Dr Mark Payton	235	212	26	23	2	3	108	88	371	326
Martin Glanfield	200	189	22	21	4	4	92	78	318	292
Julian Viggars[1]	192	–	21	–	2	–	86	–	301	–
Matthew Mead[2]	9	219	–	–	–	3	–	83	9	305
Non-executive Directors										
Ian Metcalfe	46	46	–	–	–	–	–	–	46	46
Ray Chamberlain	40	40	–	–	–	–	–	–	40	40
Dr Jonathan Pell	40	10	–	–	–	–	–	–	40	10
Caroline Plumb OBE[3]	32	–	–	–	–	–	–	–	32	–
Susan Searle	75	65	–	–	–	–	–	–	75	65
	869	781	69	44	8	10	286	249	1,232	1,084

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 Julian Viggars was appointed on 17 April 2018.
2 Matthew Mead resigned on 17 April 2018.
3 Caroline Plumb OBE was appointed on 12 June 2018.

REMUNERATION REPORT continued

Share options (audited)

The number of options over Mercia Asset Management's Ordinary shares held by Directors as at 31 March 2019 is set out below:

	Number of options				
	As at 31 March 2019	As at 31 March 2018	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[2]
	400,000	400,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[3]
	400,000	–	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[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[2]
	400,000	400,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[3]
	400,000	–	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[4]
Julian Viggars[5]	300,000	n/a	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[2]
	100,000	n/a	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[3]
	1,200,000	n/a	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[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 27 July 2019, one-third from 27 July 2020 and the remaining one-third from 27 July 2021.
3 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.
4 The options will be exercisable as to one-third from 28 August 2021, one-third from 28 August 2022 and the remaining one-third from 28 August 2023.
5 Julian Viggars was appointed on 17 April 2018.

Directors' share interests (audited)

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

	Number of Ordinary shares as at 31 March 2019	Number of Ordinary shares as at 5 July 2019
Ian Metcalfe	132,609	132,609
Dr Mark Payton[1]	6,655,472	6,699,653
Martin Glanfield[1]	293,369	343,369
Julian Viggars[1]	424,325	482,325
Ray Chamberlain[2]	60,824,766	60,824,766
Dr Jonathan Pell	–	–
Caroline Plumb OBE	–	–
Susan Searle[3]	1,097,388	n/a

1 In April 2019 Dr Mark Payton, Martin Glanfield and Julian Viggars each increased their shareholding in Mercia Asset Management PLC by purchasing 44,091 shares, 50,000 shares and 58,000 shares respectively.
2 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).
3 Susan Searle resigned on 2 July 2019.

Ian R Metcalfe
Chair of the Remuneration Committee
5 July 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCIA ASSET MANAGEMENT PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Mercia Asset Management PLC (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 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 which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated cash flow statement;
- the consolidated and parent Company statements of changes in equity; and
- the related notes 1 to 40.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent 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 parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard 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 matters	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 £2.3million, which represents 2.4% 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 scope audit procedures.
Significant changes in our approach	No significant changes were made from our planned audit approach.

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 parent 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCIA ASSET MANAGEMENT PLC continued

Key audit matters

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 in note 2 on page 65 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 £87.7million (2018: £66.1million). 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 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 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 reported 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 the Directors and evaluated the valuation methodology applied in reference to the Group's own valuation policies. We have also considered the effects of potential uncertainties from the UK's proposed future exit from the European Union;
- we have 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 observations

Based on these procedures, we found the judgements and assumptions used to be materially appropriate.

We note that the valuation methodology applied by management includes a level of prudence in determining the fair value of investment; however, 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	Parent Company financial statements
Materiality	£2.3million (2018: £2.1million)	£1.3million (2018: £2.0million)
Basis for determining materiality	Materiality of £2.3million represents 2.4% of the Group's net assets less cash and cash equivalents and short-term liquidity investments.	Materiality of £1.3million represents less than 2.4% of parent 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 parent 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 then do not deem these balances to be direct indicators of the Group's and parent 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 £115,000 (2018: £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 £0.5million to £1.4million. 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. Teams from our offices in Manchester and Birmingham have performed audit work. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCIA ASSET MANAGEMENT PLC continued

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Group and of the parent 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or ▪ the parent Company financial statements are not in agreement with the accounting records and returns.	**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 this matter.**

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.

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

Birmingham, United Kingdom
5 July 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Revenue	3	10,675	10,197
Other administrative expenses		(12,115)	(10,633)
Net expenses		(1,440)	(436)
Realised gains on disposal of investments		–	871
Fair value movements in investments	4	3,916	2,823
Share-based payments charge	6	(171)	(497)
Amortisation of intangible assets	7	(301)	(301)
Operating profit before exceptional item	7	2,004	2,460
Exceptional item		–	(1,125)
Operating profit		2,004	1,335
Finance income	8	562	274
Profit before taxation		2,566	1,609
Taxation	9	54	54
Profit and total comprehensive income for the financial year		2,620	1,663
Basic and diluted earnings per Ordinary share (pence)	10	0.86	0.55

All results derive from continuing operations.

The notes on pages 57 to 74 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 March 2019

	Note	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Assets			
Non-current assets			
Goodwill	11	10,328	10,328
Intangible assets	13	584	885
Property, plant and equipment	14	153	145
Investments	15	87,659	66,070
Total non-current assets		98,724	77,428
Current assets			
Trade and other receivables	16	782	1,057
Short-term liquidity investments	17	5,188	10,000
Cash and cash equivalents	17	25,210	42,908
Total current assets		31,180	53,965
Total assets		129,904	131,393
Current liabilities			
Trade and other payables	18	(3,730)	(7,760)
Non-current liabilities			
Deferred taxation	19	(109)	(163)
Total liabilities		(3,839)	(7,923)
Net assets		126,065	123,470
Equity			
Issued share capital	20	3	3
Share premium	21	49,324	49,324
Other distributable reserve	22	70,000	70,000
Retained earnings		5,401	2,977
Share-based payments reserve		1,337	1,166
Total equity		126,065	123,470

The notes on pages 57 to 74 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 53 to 74 were approved by the Board of Directors and authorised for issue on 5 July 2019. 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 2019

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Cash flows from operating activities:			
Operating profit		2,004	1,335
Adjustments to reconcile operating profit to net cash flows used in operating activities:			
Depreciation of property, plant and equipment	14	84	81
Realised gains on disposal of investments		–	(871)
Fair value movements in investments	4	(3,916)	(2,823)
Share-based payments charge	6	171	497
Amortisation of intangible assets	13	301	301
Exceptional item – deferred consideration		–	1,125
Working capital adjustments:			
Decrease in trade and other receivables	16	306	19
Decrease in trade and other payables	18	(4,030)	(106)
Net cash used in operating activities		(5,080)	(442)
Cash flows from direct investment activities:			
Purchase of direct investments	15	(19,384)	(21,282)
Investee company loan repayments	15	1,711	150
Proceeds from the sale of direct investments		–	10,468
Net cash used in direct investment activities		(17,673)	(10,664)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	14	(92)	(75)
Investee company loan redemption premiums and interest received		531	260
Decrease in short-term liquidity investments	17	4,812	25,000
Net cash generated from other investing activities		5,251	25,185
Net cash (used in)/generated from total investing activities		(12,422)	14,521
Cash flows from financing activities:			
Redemption of subsidiary undertaking preference shares		(196)	–
Net cash used in financing activities		(196)	–
Net (decrease)/increase in cash and cash equivalents		(17,698)	14,079
Cash and cash equivalents at the beginning of the year		42,908	28,829
Cash and cash equivalents at the end of the year	17	25,210	42,908

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Issued share capital £'000 (note 20)	Share premium £'000 (note 21)	Other distributable reserve £'000 (note 22)	Retained earnings £'000	Share-based payments reserve £'000	Other reserve £'000	Total £'000
As at 1 April 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	–	–	–	–	–	1,125	1,125
Settlement of deferred consideration	–	1,081	–	–	–	(2,250)	(1,169)
As at 31 March 2018	3	49,324	70,000	2,977	1,166	–	123,470
Profit and total comprehensive income for the year	–	–	–	2,620	–	–	2,620
Share-based payments charge	–	–	–	–	171	–	171
Redemption of subsidiary undertaking preference shares	–	–	–	(196)	–	–	(196)
As at 31 March 2019	3	49,324	70,000	5,401	1,337	–	126,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. Accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied throughout the year unless otherwise stated.

General information

Mercia Asset Management PLC (formerly Mercia Technologies PLC) ('the Group', 'Mercia') is a public limited company, incorporated and domiciled in England, United Kingdom, and registered in England and Wales with registered number 09223445. The change of name better reflects the Group's current trading activities and business model. Its Ordinary shares are admitted to trading on the AIM market of the London Stock Exchange. The registered office address is Mercia Asset Management PLC, Forward House, 17 High Street, Henley-in-Arden, B95 5AA. Mercia Asset Management 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 Asset Management 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 an historical cost basis, as modified by the revaluation of certain financial assets and financial liabilities in accordance with IFRS 9 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
- Level 3 inputs are unobservable inputs for the asset or liability

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 continue to adopt the going concern basis in preparing these consolidated financial statements.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of Mercia Asset Management 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 and subsidiary undertakings 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

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.

Direct investments
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 IFRS 9 'Financial Instruments', with changes in fair value recognised in the relevant period.

New standards, interpretations and amendments not yet effective

New standards and changes in accounting policies
New standards impacting the Group that have been applied in the presentation of these consolidated financial statements are IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

IFRS 9 'Financial Instruments'
This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and introduces new guidance under three main components being classification and measurement, impairment and hedge accounting. IFRS 9 is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value being recognised through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI") only, without the recycling of fair value changes to profit or loss. Given that the majority of the Group's financial assets, and specifically its direct investments, are already held at fair value through profit or loss, the adoption of IFRS 9 has not had any impact on the Group's results.

IFRS 9 also establishes a new approach for loans and receivables, including trade receivables, in that its 'expected credit loss' model focuses on the risk that a loan or trade receivable will default rather than whether a loss has been incurred. Under this model, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and the probability of each scenario occurring. The Group has one type of financial asset that is subject to the new expected credit model, being trade and other receivables. Given that the change in methodology gives rise to a consistent result, compared with the approach previously applied by the Group, the adoption of IFRS 9 has not had any impact on the Group's results.

The third component of the new standard, hedge accounting, is not applicable to the Group because it has no derivatives, nor does it apply hedge accounting to any of its transactions.

In summary, the Group has concluded that the application of IFRS 9 results in no differences in the classification and measurement nor impairment of its financial instruments and as a result, there is no requirement to restate the comparative information provided in these consolidated financial statements, nor change its accounting policy.

IFRS 15 'Revenue from Contracts with Customers'
This standard replaces 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 standard implements a uniform method of recognising revenue based on the actual contract and performance obligation. Revenue will be recognised when an entity satisfies a performance obligation by transferring a promised good or service to its customer. As such, the amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically the promise to transfer goods to a customer) or over time (typically the promise to provide services to a customer).

The Group's revenue 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, from its investment and fund management activities. The Group's revenue recognition policy is outlined in the Revenue Recognition section below.

In summary, the Group has assessed that the application of IFRS 15 results in no differences in the timing of revenue recognition and as a result, there is no requirement to restate the comparative information provided in these consolidated financial statements. The Group has, however, changed its revenue recognition policy to adopt the standard's five-step framework, such that revenue in respect of services provided is recognised when a contractual performance obligation can be identified, a transaction price can be determined and allocated to that performance obligation and that performance obligation has been or is being satisfied.

1. Accounting policies continued

Standards issued not yet effective

IFRS 16, 'Leases' is effective for accounting periods beginning on or after 1 January 2019 (with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers', is also adopted). The standard will first be adopted by the Group in its financial statements for the year ending 31 March 2020.

Under IFRS 16, which replaces IAS 17 'Leases', lessees will be required to apply a single model to recognise both 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. A review of IFRS 16 has been conducted to determine its impact on the Group. The new standard will impact three of its current 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 offices), 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. Depreciation and interest will replace the operating lease payments currently recognised as a rent expense.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of £1,344,000 (see note 24). In transitioning to IFRS 16 the Group expects to recognise right-of-use assets of approximately £740,000 on 1 April 2019 and lease liabilities of approximately £740,000. The Group expects that there will be no material impact on the net profit after tax for the year ending 31 March 2020 as a result of adopting the new standard.

The Group intends to apply IFRS 16 initially on 1 April 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information required.

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 were previously recognised as the related services were provided. Under IFRS 15, the performance obligation of providing those services is satisfied over a period of time, being the contractual period for which the services are provided. Accordingly, the Group continues to recognise annual fund management fee revenue over the contractual period for which the services are provided, as performance criterion are met.

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 were previously recognised upon completion of the investment. Under IFRS 15, the performance obligation of providing those services is satisfied at a point in time, being upon completion of the investment. Accordingly, the Group continues to recognise initial management fee revenue 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. They are distinct and separable to annual fund management fees and initial management fees. Previously, amounts were 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 related. Under IFRS 15, the performance obligation of providing the portfolio directors' services is satisfied over a period of time, as specified in the investment agreement. Accordingly, the Group continues to record amounts invoiced as deferred income, included under current liabilities and then amortises them in the consolidated statement of comprehensive income over the contractual period for which the services are provided, as performance criterion are met.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

1. Accounting policies continued

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 continue to 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.

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.

1. Accounting policies continued

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:

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.

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 ("FVTPL"), which are initially measured at fair value.

Financial assets are classified into the following specified categories: FVTPL and 'amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Amortised cost

Financial assets that were part of the category of 'loans and receivables' under IAS 39 Financial Instruments: Recognition and measurement are now are measured at amortised cost using the effective interest method, less any expected losses and categorised as financial assets held at amortised cost.

The Group's financial assets held at amortised cost comprise trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables).

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

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. 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.

Financial liabilities and equity instruments
Financial liabilities
Current financial liabilities are composed of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

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. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 IPEVCVG, 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.

New IPEVCVGs, effective for accounting periods beginning on or after 1 January 2019, were published on 21 December 2018 and may impact the Group's fair value measurements included in its financial statements for the financial year ending 31 March 2020.

The principal change in the new guidelines clarifies that using the price of a recent investment should not be the basis for determining the investment valuation and reinforces the premise that fair value must be estimated at each measurement date as required by the relevant accounting standards. Fair value may equal the price of a recent investment, however, this assessment will require careful consideration of the facts and circumstances.

The Directors have considered the impact of the United Kingdom's forthcoming exit from the European Union ('Brexit') and how it may impact upon the valuation of the Group's investments in portfolio companies. At the portfolio company level, the most commonly-cited potential impacts for Mercia's investee companies arise from potential changes to regulations (particularly for life sciences companies), supply chain, financing, hiring and retaining talent, all of which are likely to be more prevalent in a 'hard' Brexit scenario. The Group continues to monitor the situation closely for both short-term and longer-term impacts at both the Group and portfolio company level. Mercia will continue to monitor the outcome of the negotiations between the United Kingdom and the European Union and factor any relevant impacts into the fair value assessment of its direct investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

3. Segmental reporting
For the year ended 31 March 2019, 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 active specialist asset management, 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 2019 £'000	Year ended 31 March 2018 £'000
Fund management fees	7,282	7,187
Initial management fees	1,134	1,074
Portfolio directors' fees	2,139	1,847
Other revenue	120	89
	10,675	10,197

4. Fair value movements in investments

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Net fair value movements in investments (note 15)	3,916	2,823

No other gains or losses have been recognised in respect of financial assets held at amortised cost. No gains or losses have been recognised on financial liabilities held 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 2019 Number	Year ended 31 March 2018 Number
Asset management	61	44
Central functions	24	24
	85	68

Central functions comprise senior management (including Executive and Non-executive Directors), finance, compliance, legal, administration, people and talent and marketing.

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Wages and salaries	7,006	6,398
Social security costs	917	718
Other pension costs (note 23)	479	384
	8,402	7,500

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 47, which forms part of these financial statements.

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 46 to 48 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2019 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	120,000	50.00p
	31 July 2015	30 July 2025	–	70.00p
	11 August 2015	10 August 2025	–	69.00p
	27 July 2016	26 July 2026	1,307,203	51.25p
	24 April 2017	23 April 2027	474,296	40.05p
	24 July 2017	23 July 2027	55,000	36.00p
	15 December 2017	14 December 2027	368,537	37.25p
	28 August 2018	27 August 2028	941,445	30.80p
Unapproved share option scheme	8 December 2014	7 December 2024	1,880,000	50.00p
	31 July 2015	30 July 2025	–	57.50p
	11 August 2015	10 August 2025	–	57.50p
	27 July 2016	26 July 2026	2,477,797	51.25p
	24 April 2017	23 April 2027	283,704	40.05p
	24 July 2017	23 July 2027	1,700,000	36.00p
	15 December 2017	14 December 2027	119,463	37.25p
	28 August 2018	27 August 2028	3,685,555	30.80p
			13,413,000	

Details of the share options outstanding as at 31 March 2019 and 31 March 2018 are as follows:

	Year ended 31 March 2019		Year ended 31 March 2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	11,702,000	43.70p	8,715,000	50.16p
Granted during the year	4,629,000	30.80p	3,517,000	34.09p
Forfeited during the year	(2,168,000)	51.22p	(530,000)	42.95p
Exercised during the year	–	–	–	–
Expired during the year	(750,000)	56.50p	–	–
Share options outstanding as at 31 March	13,413,000	41.99p	11,702,000	43.70p

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
28 August 2018	30.80p	30.80p	1.0%	10 years	30%	12.22p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

6. Share-based payments continued
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 £171,000 (2018: £497,000).

7. Operating profit
Operating profit is stated after charging:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Other administrative expenses:		
Staff costs (note 5)	8,402	7,500
Marketing, professional adviser, travel and entertainment and other administration costs	3,103	2,594
Depreciation of property, plant and equipment (note 14)	84	81
Operating lease costs	364	310
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	43	39
– Fees payable to the Company's auditor for other services:		
– The audit of the interim accounts of the Company	22	18
– The audit of accounts of subsidiaries of the Company	67	58
– CASS related assurance services	30	29
– All other non-audit services	–	4
Total other administrative expenses	12,115	10,633
Share-based payments charge (note 6)	171	497
Amortisation of intangible assets (note 13)	301	301
Total administrative expenses	**12,587**	**11,431**

8. Finance income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Interest income arising from:		
Cash and cash equivalents	147	70
Short-term liquidity investments	74	161
Investee company loans (interest and redemption premiums)	341	43
Total interest receivable	**562**	**274**

9. Taxation

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Corporation tax:		
Current year	–	–
Deferred tax	54	54
	54	54

The UK standard rate of corporation tax is 19% (2018: 19%). There is no current tax charge in the year (2018: £nil). The deferred tax credit of £54,000 (2018: £54,000) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

9. Taxation continued

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before taxation	2,566	1,609
Tax at the standard rate of corporation tax in the UK of 19% (2018: 19%)	488	306
Effects of:		
Income not subject to tax	(913)	(802)
Expenses not deductible for tax purposes	(1,210)	(647)
Other timing differences not recognised	1,635	1,143
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 2019, a deferred tax liability of £109,000 (2018: £163,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures. A deferred tax asset of £5,995,000 (2018: £4,163,000) for cumulative unrelieved management expenses and other tax losses has not been recognised due to uncertainty regarding its future recoverability.

10. 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 2019	Year ended 31 March 2018
Earnings per Ordinary share		
Profit for the financial year (£'000)	2,620	1,663
Weighted average number of Ordinary shares (basic) ('000)	303,310	300,617
Weighted average number of Ordinary shares (diluted) ('000)	305,018	300,617
Earnings per Ordinary share basic and diluted (pence)	0.86	0.55

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 March 2019 '000	Year ended 31 March 2018 '000
Weighted average number of shares		
Basic	303,310	300,617
Dilutive impact of share options	1,708	–
Diluted	305,018	300,617

11. Goodwill

	£'000
Cost	
As at 1 April 2017	10,328
Additions	–
As at 31 March 2018	10,328
Additions	–
As at 31 March 2019	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. The balance of £2,455,000 arose on the acquisition of Mercia Fund Management Limited in December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

11. Goodwill continued
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 the Directors 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 (being 12 months from the date of approval of these financial statements) increase in expectations for the results of the CGU since acquisition, and specifically its fund management revenue and cash inflows, 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. On the basis that any changes in key assumptions are unlikely and even if they did change, they would not cause the CGU's carrying amount to be lower than its recoverable amount, there is no requirement to disclose any sensitivity analysis.

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.

12. Subsidiaries
The Group consists of Mercia Asset Management PLC and its subsidiary undertakings. Note 32 to the Company's financial statements lists details of the Company's subsidiary undertakings.

13. 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 2017	1,504
Additions	–
As at 31 March 2018	1,504
Additions	–
As at 31 March 2019	**1,504**
Accumulated amortisation	
As at 1 April 2017	318
Charge for the year	301
As at 31 March 2018	619
Charge for the year	301
As at 31 March 2019	**920**
Net book value	
As at 31 March 2018	885
As at 31 March 2019	**584**

14. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2017	40	62	294	396
Additions	–	6	69	75
As at 31 March 2018	40	68	363	471
Additions	2	9	81	92
As at 31 March 2019	**42**	**77**	**444**	**563**
Accumulated depreciation				
As at 1 April 2017	5	35	205	245
Charge for the year	5	13	63	81
As at 31 March 2018	10	48	268	326
Charge for the year	5	12	67	84
As at 31 March 2019	**15**	**60**	**335**	**410**
Net book value				
As at 31 March 2018	30	20	95	145
As at 31 March 2019	**27**	**17**	**109**	**153**

15. Investments

The net change in the value of investments for the year is £21,589,000 (2018: £14,042,000).

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, investee company loans repaid and the direct investment fair value movements.

	£'000
As at 1 April 2018	66,070
Investments made during the year	19,384
Investee company loan repayments	(1,711)
Unrealised gains on the revaluation of investments	8,622
Unrealised losses on the revaluation of investments	(4,706)
As at 31 March 2019	**87,659**

In accordance with the Group's accounting policy in respect of direct investments, 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 2019 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 Acoustics Limited	62.5	2,154	(2,211)	30 September 2018
nDreams Limited	45.5	557	(2,282)	31 March 2018
LM Technologies Limited	41.4	502	(246)	31 December 2018
Oxford Genetics Limited	33.3	6,357	(2,738)	30 April 2018
The Native Antigen Company Limited	32.7	1,463	346	30 September 2018
Intechnica Limited	32.0	2,476	(1,760)	31 March 2018
Medherant Limited	31.9	3,493	(1,736)	31 March 2018
Soccer Manager Limited	31.6	(996)	(1,376)	31 October 2017
Impression Technologies Limited	31.4	4,165	(1,867)	31 December 2017
Ton UK Limited t/a Intelligent Positioning	28.8	1,117	(245)	31 December 2018
Nightingale-EOS Limited	28.5	1,040	24	31 July 2018
VirtTrade Limited t/a Avid Games	28.4	(1,722)	(1,064)	31 August 2018
Crowd Reactive Limited	26.2	594	32	31 December 2017
sureCore Limited	24.4	(211)	(555)	30 June 2018
Voxpopme Limited	21.3	811	(846)	31 December 2017
Edge Case Games Limited	21.2	1,759	(673)	30 September 2018

16. Trade and other receivables

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Current:		
Trade and other receivables	569	572
Less: provision for impairment of trade receivables	(184)	(234)
Net trade receivables	385	338
Other receivables	4	318
Prepayments and accrued income	393	401
	782	1,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

16. Trade and other receivables continued
The ageing of trade receivables at the year end was as follows:

	Gross £'000	Impairment £'000
Not past due	165	(1)
Past due 0-30 days	27	(5)
Past due 31-60 days	62	(22)
Past due 61-90 days	6	(3)
Past due more than 91 days	309	(153)
	569	(184)

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

	£'000
As at 1 April 2018	234
Provisions made	72
Provisions released	(96)
Amounts written off	(26)
As at 31 March 2019	184

The Group applies the IFRS 9 expected credit loss model. The expected credit losses on trade receivables are by reference to past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast conditions at the reporting date.

The impairment provision at 31 March 2019 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 £72,000 (2018: £138,000) 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.

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

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Cash at bank and in hand	25,210	42,908
Total cash and cash equivalents	25,210	42,908
Total short-term liquidity investments	5,188	10,000

18. Trade and other payables

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Trade payables	206	241
Tax and social security	225	1,377
Other payables	794	3,714
Accruals and deferred income	2,505	2,428
	3,730	7,760

Other payables includes £629,000 (2018: £3,473,000) of cash held on behalf of third-party EIS investors.

19. Deferred taxation

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Recognition of deferred tax liability	109	163

As at 31 March 2019 a deferred tax liability of £109,000 (2018: £163,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

20. Issued share capital

	As at 31 March 2019		As at 31 March 2018	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year	303,309,707	3	300,602,232	3
Issue of share capital during the year	–	–	2,707,475	–
As at the end of the year	303,309,707	3	303,309,707	3

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. 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.

21. Share premium

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
As at the beginning of the year	49,324	48,243
Premium arising on the issue of Ordinary shares	–	1,081
As at the end of the year	49,324	49,324

The premium on the issue of Ordinary shares in the prior 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.

22. 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.

23. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2019 was £479,000 (2018: £384,000). As at 31 March 2019, contributions amounting to £30,000 (2018: £20,000) had not yet been paid over to the plans and are recorded in other payables (note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 March 2019

24. 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 2019		As at 31 March 2018	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	261	22	314	14
In the second to fifth years inclusive	907	20	800	14
Over five years	160	–	319	–
	1,328	42	1,433	28

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 six years now remaining. The typical lease term for office equipment is three years.

25. 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 30 to 33 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 description of each category of financial asset and financial liability and the related accounting policies are shown below. Prior to the adoption of IFRS 9 and in accordance with IAS 39, the financial assets and liabilities were classified as FVTPL or as loans and receivables. The carrying amounts have not changed on adoption of IFRS 9. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	FVTPL £'000	Amortised cost £'000	Total £'000
As at 31 March 2019			
Financial assets			
Long-term financial assets	87,659	–	87,659
Trade and other receivables	–	389	389
Cash and cash equivalents	–	25,210	25,210
Short-term liquidity investments	–	5,188	5,188
Short-term financial assets	–	30,787	30,787
Total financial assets	87,659	30,787	118,446
Financial liabilities			
Trade and other payables	–	(1,000)	(1,000)
Total financial liabilities	–	(1,000)	(1,000)

	FVTPL £'000	Amortised cost £'000	Total £'000
As at 31 March 2018			
Financial assets			
Long-term financial assets	66,070	–	66,070
Trade and other receivables	–	656	656
Cash and cash equivalents	–	42,908	42,908
Short-term liquidity investments	–	10,000	10,000
Short-term financial assets	–	53,564	53,564
Total financial assets	66,070	53,564	119,634
Financial liabilities			
Trade and other payables	–	(3,955)	(3,955)
Total financial liabilities	–	(3,955)	(3,955)

25. Financial risk management continued

Financial risk management objectives

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

Market risk

Price risk

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

Interest rate risk

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

Liquidity risk

Cash and cash equivalents include cash in hand and deposits held with UK banks with original maturities of less than 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 is exposed to this risk for various financial instruments; for example, by granting receivables to customers and from placing cash and deposits with banks. The Group's trade receivables are amounts due from the investment funds under management, from those investee companies held by its managed funds and from its directly invested portfolio companies. The Group's maximum exposure to credit risk is limited to the carrying amount of trade receivables net of provisions, cash and cash equivalents and short-term liquidity investments as at 31 March, as summarised below:

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Net trade receivables	385	338
Cash at bank and in hand	25,210	42,908
Short-term liquidity investments	5,188	10,000
	30,783	53,246

The Directors consider that all the above financial assets are of good credit quality. In respect of trade and other receivables, the Group is not exposed to significant risk as the principal customers are the investment funds managed by the Group, and in these the Group has control of the banking as part of its management responsibilities.

The credit risk of cash and cash equivalents and short-term liquidity investments held on deposit is limited by the use of reputable UK banks with high quality external credit ratings and as such is considered negligible. All cash, cash equivalents and short-term liquidity investments are held with banks with an A rating as at year ended 31 March 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

25. Financial risk management continued
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 2019. 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")	1,133	–	86,526	87,659

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 2019, the Group had one direct investment listed on AIM (Concepta); this has been classified as Level 1 and valued at its bid price as at 31 March 2019.

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 2019 £'000
Listed investments	1	1,133
Price of recent funding round	3	57,230
Cost	3	8,822
Enterprise value	3	14,237
Price of recent funding round or cost adjusted for impairment	3	6,237
		87,659

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. Three direct investments are valued at an enterprise value, based on a multiple of revenues, given their stage of development and profitability.

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

26. 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 47. Directors' shareholdings in the Group are disclosed on page 48 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 Asset Management PLC, is a member. During the year ended 31 March 2019, 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 £235,000 plus VAT (2018: £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. The change compared with the prior year resulted from an increase in the amount of space being occupied by the Group. Rent and service charges are invoiced quarterly in advance. As at 31 March 2019, prepaid rent and service charges amounted to £52,000 plus VAT (2018: £43,000 plus VAT).

During the year preference shares held by the former owners of Mercia Fund Management Limited, including Ray Chamberlain and Dr Mark Payton, were redeemed at par.

27. Ultimate controlling party
The Group has no single ultimate controlling party.

COMPANY BALANCE SHEET
As at 31 March 2019

	Note	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	31	139	134
Investments in subsidiary undertakings	32	23,533	23,533
Trade and other receivables	33	74,500	61,500
Total non-current assets		98,172	85,167
Current assets			
Trade and other receivables	33	299	224
Short-term liquidity investments		5,188	20,112
Cash at bank and in hand		13,815	10,709
Total current assets		19,302	31,045
Total assets		117,474	116,212
Current liabilities			
Trade and other payables	34	(374)	(542)
Total liabilities		(374)	(542)
Net assets		117,100	115,670
Equity			
Issued share capital	35	3	3
Share premium	35	49,324	49,324
Other distributable reserve	36	70,000	70,000
Retained earnings		(3,564)	(4,823)
Share-based payments reserve		1,337	1,166
Total equity		117,100	115,670

The Company's profit for the year was £1,259,000 (2018: £733,000 loss).

The notes on pages 77 to 81 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 75 to 81 were approved by the Board of Directors and authorised for issue on 5 July 2019. 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 2019

	Issued share capital £'000 (note 35)	Share premium £'000 (note 35)	Other distributable reserve £'000 (note 36)	Retained earnings £'000	Share-based payments reserve £'000	Other reserve £'000	Total £'000
As at 1 April 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	–	–	–	–	–	390	390
Settlement of deferred consideration	–	1,081	–	–	–	(1,515)	(434)
As at 31 March 2018	3	49,324	70,000	(4,823)	1,166	–	115,670
Total comprehensive income for the year	–	–	–	1,259	–	–	1,259
Share-based payments charge	–	–	–	–	171	–	171
As at 31 March 2019	3	49,324	70,000	(3,564)	1,337	–	117,100

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2019

28. Accounting policies

Basis of preparation

The financial statements of Mercia Asset Management PLC (formerly 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.

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:

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 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
For the year ended 31 March 2019

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

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- IAS 7, 'Statement of Cash Flows';
- 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).

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

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

31. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2018	40	38	194	272
Additions	2	–	80	82
As at 31 March 2019	42	38	274	354
Accumulated depreciation				
As at 1 April 2018	10	26	102	138
Charge for the year	5	9	63	77
As at 31 March 2019	15	35	165	215
Net book value as at 31 March 2018	30	12	92	134
Net book value as at 31 March 2019	27	3	109	139

32. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2018	23,533
Additions	–
As at 31 March 2019	**23,533**

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 2019 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
EV 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 Technologies Limited[3]	England	100%	Dormant

1. The Company owns 100% of Mercia Fund Management Limited's Ordinary shares and thus has a 100% controlling interest in the subsidiary undertaking.
2. The Company owns 90% of the capital invested in Mercia Investment Plan LP.
3 On 4 July 2019 the name of the subsidiary undertaking was changed to Mercia Technologies Limited, at the same time as the Company's name was changed to Mercia Asset Management PLC.

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 are registered at Unit F26, Preston Technology Management Centre, Marsh Lane, Preston, Lancashire PR1 8UQ

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

For the year ended 31 March 2019

33. Debtors

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Amounts falling due within one year:		
Other debtors	108	78
Prepayments and accrued income	191	146
	299	224
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	74,500	61,500
	74,500	61,500

Amounts due from subsidiary undertakings are in respect of unsecured, interest-bearing loans. Interest is charged on the principal sum of the loans typically at a rate of 4% and is paid half yearly. The terms of the loans are such that the earliest date on which Mercia Asset Management PLC can recall a loan is five years from the loan agreement date.

34. Creditors – amounts falling due within one year

	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Trade creditors	46	47
Accruals and deferred income	328	495
	374	542

35. Issued share capital and share premium

The movements in issued share capital and share premium are disclosed in notes 20 and 21 to the consolidated financial statements.

36. Other distributable reserve

The movements in other distributable reserve are disclosed in note 22 to the consolidated financial statements.

37. 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 2019 Number	Year ended 31 March 2018 Number
Central functions	12	11

Central functions comprise senior management (including Executive and Non-executive Directors), finance, compliance, legal, administration, people and talent and marketing.

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Wages and salaries	1,092	1,116
Social security costs	142	120
Other pension costs (note 38)	64	61
	1,298	1,297

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 46 to 48 of this Annual Report.

38. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2019 was £64,000 (2018: £61,000). As at 31 March 2019, no contribution payments were outstanding (2018: £nil).

39. Operating lease commitments

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

	As at 31 March 2019 Land and buildings £'000	As at 31 March 2018 Land and buildings £'000
Within one year	227	186
In the second to fifth years inclusive	906	746
Over five years	160	319
	1,293	1,251

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 six years now remaining.

40. Related parties

The Company has taken advantage of the exemption available to companies under FRS 101 not to disclose transactions and balances between members of the same group. Note 26 of the consolidated financial statements details the Group's related party transactions.

DIRECTORS, SECRETARY AND ADVISERS

Directors

Ian Roland Metcalfe	(Non-executive Chair)
Dr Mark Andrew Payton	(Chief Executive Officer)
Martin James Glanfield	(Chief Financial Officer)
Julian George Viggars	(Chief Investment Officer)
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.mercia.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 registration number
09223445

Company registrar
SLC Registrars
Elder House
St Georges Business Park
Brooklands Road
Weybridge
Surrey KT13 0TS

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

Nominated adviser and broker
Canaccord Genuity Ltd
88 Wood Street
London EC2V 7QR

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

NOTICE OF ANNUAL GENERAL MEETING

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

Notice is hereby given that the Annual General Meeting ('**AGM**') of Mercia Asset Management PLC (the '**Company**') will be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA on 24 September 2019 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 6 as ordinary resolutions and resolutions 7 and 8 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 2019 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2019.
3. That Ian Metcalfe, 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.
4. That Dr Mark Payton, 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. 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

6. 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 2020 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

7. That, subject to the passing of resolution 6, 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 6 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 2020 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.
8. 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 2020 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
26 July 2019

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

NOTICE OF ANNUAL GENERAL MEETING continued

Mercia Asset Management PLC

(Incorporated and registered in England and Wales with registered number 09223445)

NOTES

Proxies

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend, speak and vote on the same occasion provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each form, together with the number of shares that such proxy is appointed in respect of (which, in aggregate, should not exceed the number of shares held by the member). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. A form of proxy is enclosed with this notice. Forms of proxy may also be obtained on request from the Company's registered office. In order to be valid any proxy form appointing a proxy must be returned duly completed no later than 10.00 a.m. on 20 September 2019 (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, Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS, 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 20 September 2019 (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 20 September 2019 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 26 July 2019, 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 26 July 2019 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 26 July 2019 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 2019.
2. **Resolution 2** – the shareholders are required to approve the Remuneration Report for the year ended 31 March 2019.
3. **Resolutions 3 to 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. **Resolution 5 – auditor re-appointment and remuneration** – at each meeting at which the Company's accounts are presented to its shareholders, the Company is required to appoint an auditor to serve until the next such meeting and seek shareholder consent for the Directors to set the remuneration of the auditor.
5. **Resolution 6 – 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 2020 and 30 September 2020 (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 26 July 2019 (the latest practicable date prior to the publication of this document).
6. **Resolution 7 – 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 26 July 2019 (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 2020 and 30 September 2020 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.

7. **Resolution 8 – 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 26 July 2019 (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.

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mercia
asset management

MERCIA ASSET MANAGEMENT PLC

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