Complete • Connected • Capital

#OneMercia

Annual Report and Accounts 2020

Welcome to mercia asset management

The proactive, regionally focused specialist asset manager

In the regions, from the regions, to the regions.

Our purpose is to provide growth capital and tailored investment solutions to fast-growing regional businesses to create long-term shareholder value.

Number of portfolio businesses

c.390

Available capital

c.£320m

Images on front cover:
(Left) **Peter Dines**, Chief Operating Officer.
(Right) **Jill Williams**, Investment Director, Private Equity.

What's in this report

Contents

Responding to market conditions

As we emerge from one of the most challenging market conditions on record, Mercia is well placed with preserved capability and liquidity to manage the immediate priorities and sustain its three-year strategic priorities.

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Strategic priorities

We have strengthened our balance sheet, grown our assets under management ("AuM"), taken the Group to net revenues and readied the business to take full advantage of the opportunities that will emerge.

See more on page 15

Managing our risks

People have been our key priority. We have safeguarded their health and wellbeing and ensured that a rigorous response has been put in place to preserve our assets and minimise our risk exposure.

See more on page 52

We are on a rewarding journey, together

As we emerge from the current challenging environment, we are well placed with preserved capability and liquidity to sustain our highly selective investment strategy and the flexibility to continue to support and manage our portfolios as companies mature.

Assets under management ("AuM")

c.£800m

2019: c.£507m

Funds under management ("FuM")

c.£658m

2019: c.£381m

Ryan Cawood
CEO, OXGENE.

Jocelyne Bath
COO, OXGENE.

Net assets
£141.5m
2019: £126.1m

Unrestricted cash
£30.2m
2019: £29.8m

Revenue
£12.7m
2019: £10.7m

Direct investment portfolio
£87.5m
2019: £87.7m

Net revenues
£0.1m
2019: £1.4m net expenses

Portfolio developments

- £17.5million gross invested into 18 portfolio companies during the year including one new direct investment, One Touch Apps, t/a Clear Review
- Net fair value decrease of £15.8million – near-term COVID-19 impact (2019: £3.9million increase)
- Direct investment portfolio decreased to £87.5million (2019: £87.7million)
- 12 portfolio companies received new investment from external investment partners
- Notwithstanding COVID-19 impact, continuing underlying commercial progress made by a number of portfolio companies including nDreams, which continues to be the Group's largest direct investment

Operational highlights

- Third-party FuM increased to c.£658million (2019: c.£381million) contributing £11.7million in revenue
- FuM increase largely reflects the acquisition of NVM VCT fund management business that added c.£250million in managed funds
- Venture FuM c.£476million (2019: c.£224million)
- Private equity FuM c.£60million (2019: c.£61million)
- Debt FuM c.£122million (2019: c.£96million)

Woodall Nicholson Group
The Group completed its highest value PE fund exit so far, having sold a stake in Woodall Nicholson Group Limited at a multiple of 9.6x the original investment.

See more on page 32

At a glance

Complete Connected Capital

Mercia's investments across its four asset classes are powering ambitious regional SMEs with the capital that they need to grow. Our business model is designed specifically to support the funding needs of companies through their journey from origin to exit.

Balance sheet
Up to £10m

We believe our approach to investing differentiates us. Mercia's model is to seek material influence (c.20%–40%) in companies with modest capital needs, typically less than £10.0million, and with realistic entry valuations. We are active board advisers and engaged intermediaries in the businesses in which we invest. We provide access to the Mercia Platform of sector experts and talent network of non-executives. We are not restricted in our ability to provide capital investment and follow-on funding to our portfolio assets so we can support each of these investee companies throughout their growth journey to optimum returns and timely realisations.

Total portfolio	**25**
Total invested in 2020	**£17.5m**
Liquidity	**£30.2m**

Venture
£100k–£10m

The UK's regions are home to an abundance of early-stage and scaling companies that Mercia has long recognised and provided capital to. Our aim is to close the funding gap in the regions, demonstrated by our track record of investment into c.230 inspiring businesses in the Midlands, the North of England and Scotland. Sourced through our deeply embedded networks, digital deal origination and local partnership initiatives, our capital investment and advice have fuelled emerging industries and supported innovative growth for ambitious companies seeking profitability.

Total portfolio	**233**
Total invested in 2020	**£34.4m**
FuM	**£475.6m**

Private equity
Up to £10m

Mercia's performance in the private equity space remains robust. Our ability to support established businesses that benefit from long-term growth trends and to apply disciplined, active management to these portfolio companies has maximised shareholder returns. Our purpose, to generate attractive returns for our shareholders and fund investors, is underpinned by considered origination and identifying and leveraging the talent in our non-executive network to provide the optimal stewardship of our portfolio businesses.

Total portfolio	**10**
Total invested in 2020	**£10.7m**
FuM	**£59.8m**

Debt
£100k–£10m

We back ambition in the regions by lending debt finance to businesses that are established, profitable and led by management teams that have a growth track record. Frequently used to preserve equity or working alongside the private equity team, debt plays a key role in Mercia's Complete Connected Capital model, offering tailored solutions to small and medium-sized companies across a broad range of sectors.

Total portfolio	**119**
Total loans in 2020	**£14.5m**
FuM	**£121.8m**

8 offices
across the UK

01 Ian Wilson, Fund Principal, North East Venture Fund & Investment Committee.

02 Maurice Disasi, Investment Associate, NPIF Equity.

03 Alex Wilson, Investment Manager, Mercia Northern VCTs.

04 Michelle Heaselgrave, Head of People & Talent.

05 Chris Kilroy, Investment Director, EIS.

06 Val Andrew, Fund Administrator, Debt Finance.

We have a solid track record of investing through economic cycles and consistently providing returns across all our asset classes under management.

Right capital, right company, right place

As a proactive specialist asset manager investing in the regions, we have created an investment model to specifically support the needs of exciting, well-led SMEs in their rapid growth and deliver shareholder and fund investor value.

> **We pride ourselves on the positive impact we have made in the regions.**

> **Our critical success factors remain: the ability to invest through economic and business cycles, pick well, buy well and exit well to create substantial value.**

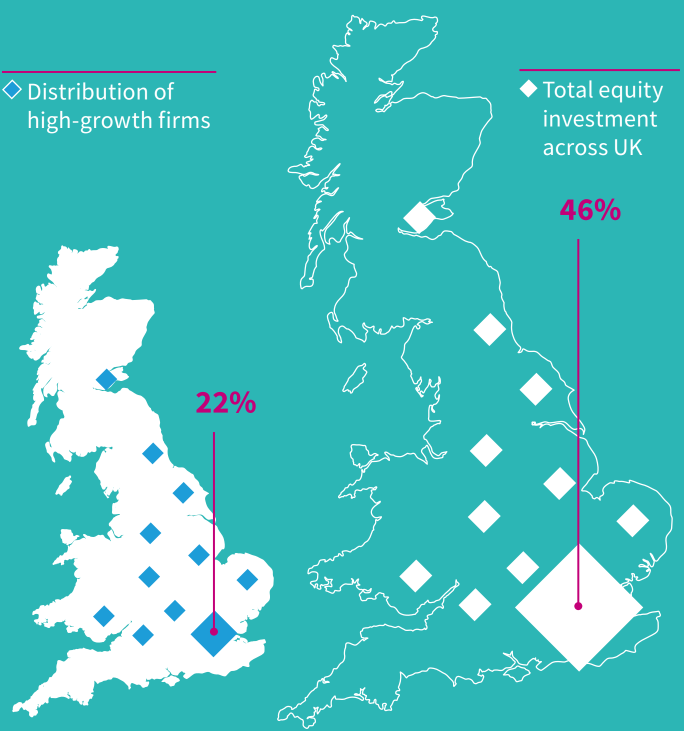
Dr Mark Payton
Chief Executive Officer

Armit Chandan
CEO, Aceleron.

Carlton Cummins
CTO, Aceleron.

Our focus

We are exclusively a domestic investor, with a focus on the UK regions where we are a leading provider of capital to ambitious SMEs to support those businesses from early-stage to scale-up and growth.



Our locations

We have eight regional offices across the UK, as well as two additional locations from which our staff can be based.

Edinburgh
Henley-in-Arden
Hull
Leeds
Manchester
Newcastle
Nottingham
Preston
Sheffield
Tees Valley

Non-executive Chair's statement

> Times such as these can be challenging and difficult, but they can also be defining moments. I am proud to be part of #OneMercia.

The execution of Mercia's strategy is making good progress

The year ended 31 March 2020 has seen continued positive progress towards the execution of the Group's strategic plan. This is reflected in the underlying progress made by many of the businesses in the Group's direct investment portfolio, as well as Mercia's growing and profitable fund management operations. Notable events during a busy year for Mercia were the successful placing and acquisition, which were announced alongside the Group's interim results on 3 December 2020.

Direct investment portfolio

Valuing the direct investment portfolio on 31 March 2020, so soon into the United Kingdom's COVID-19 related 'lockdown', is inevitably difficult. The Group has consistently complied with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG"). This has resulted in an overall fair value reduction in the direct portfolio of 15.3%. It is important to note that these fair values have been determined at a moment of global economic crisis which will ease over time, and that within the portfolio are companies which are still making rapid commercial progress. Whilst it is possible that not all of the existing portfolio companies will survive current sector-specific challenges, most will, and we expect their fair values to recover over time. Furthermore, for some of the portfolio companies this period will actually see their fair values accelerate faster than would have been the case under normal economic conditions.

The Board remains focused on the progress of the largest balance sheet direct investments, as well as the successful stewardship of the Group's growing fund management activities. The near-term impact on fair values, and therefore the Group's net asset value per share, is frustrating. However, Mercia's strong liquidity position, both within its managed funds and within its own balance sheet, provides the Group with considerable investment capacity to take advantage of anticipated lower entry prices as the current financial year unfolds. Investment returns by a portfolio are often driven more by entry prices than by exit prices and Mercia intends to take full advantage of the investment opportunities, which it anticipates will arise during the coming months.

The investment teams across all of our asset classes, being balance sheet, venture, private equity and debt, have been working closely with their portfolio companies to help as many as possible through the current unprecedented economic slowdown. Mercia's marketing team has also hosted a number of impressive and insightful webinars on a wide range of relevant business support topics, aimed specifically at helping our c.390 portfolio companies.

Living our values

We recruit exceptional people who are bright, creative, with a credible track record and a passion for what we do and getting things done.

Growth focused:

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

Responsive:

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

Knowledgeable:

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

Trusted:

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

› **See more on page 43**

Strategic review – update on progress

As I referred to in my statement last year, during the early part of 2019 the Board conducted a detailed strategic review of the Group's progress to date, the aim being to continue to scale Mercia over the following three years to become a profitable and self-sustaining investment group. The three key pillars to achieving these strategic objectives are:

- to achieve operating profitability before fair value movements, realised gains and all non-cash charges;
- to expand the Group's assets under management to at least £1.0billion; and
- to 'evergreen' its balance sheet so that the Group's direct investment activities are fully funded by periodic cash realisations from the existing portfolio.

During the year the Group made substantial progress towards the achievement of all three of these objectives, most notably through the successful placing and acquisition in December 2019. Acquisitions compress time and successful ones enhance shareholder value. The early signs for Mercia's most recent acquisition are encouraging.

Since its inception, Mercia has been clear in its determination to trade profitably, so that its revenues 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 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.

Successful placing and acquisition

On 3 December 2019 Mercia simultaneously announced a proposed placing to raise £30.0million gross and the conditional agreement to acquire three venture capital trust ("VCT") fund management contracts ('the Northern VCT contracts') from NVM Private Equity LLP ("NVM"), together with their VCT investment team, for a total consideration of up to £25.0million. On 20 December 2019, shareholders overwhelmingly approved the issue of 120.0million new Ordinary shares at 25.0 pence per share via the placing, and the acquisition of the VCT fund management business was completed on 23 December 2019. Approximately half of the placing proceeds were used to fund the initial cash consideration for the acquisition and the placing expenses, whilst the remainder has strengthened the Group's ability to continue to invest in the most promising businesses, both in its direct investment portfolio and those showing most promise in its managed funds.

The three Northern VCTs are long-standing, professionally-governed and successful listed investment trusts. The broadly regional focus, inclusive culture and sound business values of NVM, and within it their talented VCT investment team, chimed closely with Mercia's own DNA. The Board was very pleased to be able to agree mutually satisfactory terms with NVM and is most grateful to the boards of the three Northern VCTs for their agreement to novate each of the fund management contracts to Mercia. A post-acquisition 100-day integration plan was completed by the financial year end, including welcoming the VCT investment team into our #OneMercia family. For the relatively short period of ownership from acquisition to 31 March 2020, notwithstanding the COVID-19 impact on current VCT portfolio valuations and asset value linked revenues, I am pleased to say that the financial performance of the acquired business met expectations.

Governance and engagement

Throughout the year the Board has focused on the strategic direction of the Group and on executing the priorities identified. The Directors (together with the Group's Chief Operating Officer, Peter Dines) provide a balanced leadership group with relevant experience to drive the creation of shareholder value. Given the evolution of Mercia into a specialist asset manager, I said last year that the Board intended to appoint an additional Non-executive Director with relevant specialist asset management experience. No sooner had the search commenced than Mercia entered detailed negotiations with NVM and it was agreed that the search would be paused until the outcome of the proposed fund raising and acquisition became known. That search has now recommenced in earnest, although it is inevitable that lockdown and the need for social distancing is elongating the selection process.

Since its inception in 2014, the Group has embedded a strong corporate governance ethic in all of its internal and external interactions. As a member of the Quoted Companies Alliance ("QCA") since 2015, and with its fund management operations regulated by the Financial Conduct Authority ("FCA"), Mercia always seeks to act in the best interests of its stakeholders. Proactive engagement with all stakeholder groups is fundamentally important to our Board and you will be able to read many examples of how we do this within this Annual Report. In respect of the recently acquired VCT fund management business, I have engaged directly with the chairs of each VCT board and look forward to developing those relationships for the mutual benefit of all parties during the current financial year.

The backbone of our culture is our people

The wellbeing of our staff has always been a priority within Mercia. The current lockdown has helped bring our ever-growing community even closer together; be it via the weekly Zoom staff updates, team-specific check-ins, a weekly Mercia quiz, our many internal Slack channels, our in-house newsletter 'Friday Files' or our ongoing charity and team building initiatives. These daily interactions have helped preserve our group-wide cohesion and common purpose, being to deliver superior long-term returns for our shareholders and fund stakeholders alike.

Since lockdown commenced, there has been an increased focus on the impact of remote working on the mental health and wellbeing of our staff. The increased level of team and group-wide communications reflected above, and the very obvious care and compassion for each other being demonstrated by so many of our staff across the business, speak louder than any words about Mercia's culture. We have been fortunate thus far that the vast majority of our staff remain fit and well, although we have also been saddened to hear that several members of the team have lost relatives due to the virus. Our thoughts are with them and their wider families.

COVID-19

In response to the challenges posed by COVID-19, the Group's focus has been on three priorities: the safety of our employees, continued support for our portfolio companies, and maintaining long-term value creation potential for our shareholders and the investors in our managed funds. Throughout this crisis, Mercia has adhered at all times to UK Government directives and will continue to do so. We have successfully implemented our business continuity plans and the Group's transition to all staff working from home has been remarkably smooth.

Every portfolio company has been risk assessed and all are being closely monitored. We have an investment team of considerable calibre and experience that has assessed the needs of each portfolio company. Our significant balance sheet and managed funds' liquidity will be deployed wisely in the current year, to preserve the inherent future value within each portfolio. As a result of our increased active engagement with all portfolio companies across our asset classes, no staff have been furloughed. Furthermore, given our strong liquidity position, the Group has not needed to seek any government-supported debt funding.

Outlook

Those of us who have been through previous sharp downturns in the UK economy, if perhaps not as stark as this one, will know that the survival of any company, large or small, new or old, often depends on two things – the strength of its balance sheet and the quality of its people. At a time when cash is king, Mercia is blessed in having a very strong balance sheet, with approximately £30million of unrestricted cash, combined with an extremely capable and experienced leadership team, all of whom are pulling together in the same direction.

The results disclosed in this Annual Report and consolidated financial statements show the tangible progress that the Group has made during the year towards the achievement of its strategic objectives. They also show the near-term impact on asset values arising from the market's reaction to COVID-19 and its likely impact on the global economy.

As our 25 March 2020 business update announcement made clear, where contracted revenues are directly linked to the carrying value of fund or trust assets, those recurring revenues will reduce, until the value of the underlying assets recovers. This is likely to be the case for the current financial year and as a result the Group has already taken a number of cost containment actions.

Times such as these can be challenging and difficult, but they can also be defining moments. I am proud to be part of #OneMercia, which is full of people who care about the funds we manage, the companies in which we invest or to whom we lend and, most important of all, who care about each other. Thank you to all of those people.

Finally, I should like to thank our shareholders, both new and existing, for your continuing support during this challenging period of economic and social upheaval. Mercia has a focused business model, great people and a strong balance sheet. Hence, notwithstanding the current economic challenges facing our country, I am confident that Mercia will be able to successfully execute its strategic objectives in the months and years ahead.

Ian R Metcalfe
Non-executive Chair

Realising value for ambitious companies

Complete Connected Capital

Our approach to investing has evolved over many years and is predicated on the cyclical nature of private capital deployment in the regions, where optimised returns are driven through deep industry experience and buying well through the cycle.

01

Key strengths and differentiators

Regional focus

London and the South East have a significant oversupply of capital creating high pre-money valuations. The UK regions offer exciting deals with businesses that are priced sensibly and have relatively modest capital needs that we can, if we choose to, support solely from our own means.

Experienced team

We further strengthened our model of combining business expertise with geographic and investment knowledge with the addition of the VCT investment team. We have increased investment capacity across our regional offices to 64 investment specialists.

Mercia Platform

Seeking to strengthen portfolio performance to drive returns, Mercia's Platform provides access to high-quality business leaders, advisory teams and operational specialists to offer relevant support and enable the development of our portfolio's leadership teams.

Capital resource

Mercia has c.£800million in AuM (c.£142million of net assets and c.£658million in FuM) of which there is £30.2million in unrestricted free cash to invest over the next two to five years.

Established partnerships

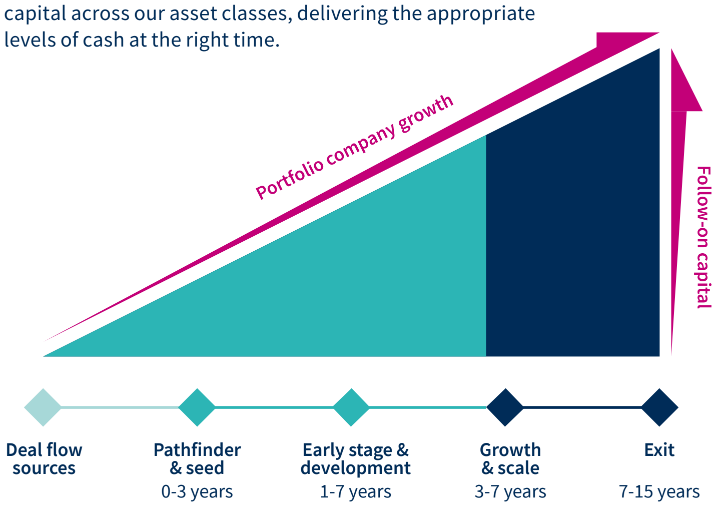
Powerful relationships and deeply embedded ecosystems provide unparalleled access to a wealth of opportunities across the regions. From our 19 university partnerships to our non-executive networks, we are well placed as the investment partner of choice.

02

Complete · Connected · Capital

What we do

Mercia's 'Complete Connected Capital' means that we can draw upon various pools of capital across our asset classes, delivering the appropriate levels of cash at the right time.



Third-party funds

c.£658million in FuM to deploy into selective, high-growth SMEs across venture, private equity and debt.

Balance sheet capital

Mercia has £30.2million unrestricted cash on its balance sheet to deploy as investment follow-on capital to promising companies in its existing direct portfolio and its third-party funds' portfolio.

How we do it

Source well

Optimised returns are driven through deep industry experience and powerful partnerships that drive deal origination, which allows Mercia to see 59% of deals in the regions.

Buy well

We are focused on investing in the highest quadrant of businesses that have appropriate pre-money valuations and where we can provide support in achieving the commercial drivers of value creation.

Support well

Beyond finance, we are active advisers to our portfolio companies and provide access to our Mercia network of business leaders, sector experts and non-executives to support our investments in achieving profitability.

Sell well

Our ability to provide follow-on funding and capital for organic growth or acquisition supports optimum exits and timely realisations.

03

Stakeholder value creation

Investee companies

Ambitious regional SMEs that require relatively modest capital needs and are priced sensibly.

Initial average investment from venture

£0.5m

Third-party investors

Solid track record of investing through the cycles and consistently providing returns across all our asset classes.

Successful fund exits in 2020

5

Employees

93 colleagues whose individual objectives, together with our values, drive Mercia's performance.

Training hours

1,929

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First choice for investees, investors and employees

Our vision is to become the leading manager of regional growth funds and the leading provider of regional capital to growth SMEs with modest capital needs.

Building a sustainable business

Scale, profitability and investment returns

Our strategy is simple: we are growing our assets under management to make our business consistently profitable and we are working with our portfolio companies to deliver cash returns to fund our direct investment portfolio.

This strategy will translate into value for our shareholders and the investors in our funds.

To achieve this, in 2019 we set out five three-year strategic priorities:

01

Strategy

Increase AuM to at least £1.0bn

- **Organic growth in our SEIS/EIS funds**
- **New mandates**
- **Selective acquisitions**

Progress

In 2020 we increased third-party funds from c.£381m to c.£658m

- £54.3m from increased mandates
- c.£250m through the strategic acquisition of the VCT fund management business

02

Strategy

Achieve 15% IRR on third-party and balance sheet equity investments

Progress

Mercia is well placed with preserved capability and liquidity to manage its immediate priorities and sustain its strategic objective of achieving 15% IRR in portfolio performance.

03

Strategy

Achieve operating profitability

- **Recurring revenue from growing FuM**
- **Operational leverage**
- **Disciplined spend**

Progress

Following the acquisition of the VCT fund management business, we expect to be profitable on an operating basis in the new financial year.

There continues to be operational leverage in Mercia to support further growth.

04

Strategy

Become the most active investor in our market with up to 20% market share

- **Access to deal flow through networks and university partnerships**
- **Reputation and track record of supporting investee companies**
- **Complete Connected Capital offering**
- **Experienced team capable of completing investments equitably and efficiently**

Progress

In 2020 we increased our market share to 18%

- Evaluated 59% of deals in the region and invested in 18%
- Completed 133 investments across all portfolios

> **The Mercia model is different. I do think it’s been really important for our growth and it’s been very important for me in terms of being able to understand what we need to do to position the business right for other investors. It’s been great working with Mercia over the years.**
>
> **Ryan Cawood**
> Founder & CEO, OXGENE.

05

Strategy

Evergreen our balance sheet to fund our direct investment activities through cash realisations from our direct portfolio

Progress

Our portfolio of direct investments has an average holding period of just under three years. On average we target a holding period of three to seven years, allowing our companies to establish their business model and scale up with our support.

Our investee companies are making operational progress, some achieving significant milestones, although COVID-19 and the economic outlook are creating challenges and, in some cases, delays.

Our focus has been on evaluating the short and long-term impact on every business, acting decisively and extending the cash runway where appropriate.

Chief Executive Officer's review

“

I am pleased to say that, in many ways, 2020 was a year of significant progress for Mercia as we achieved our goal of trading profitably a year earlier than planned, and significantly increased the scale of our fund management business, both key parts of our three-year strategic plan.

A leading and trusted provider of regional capital

Overview

These results close the first year into our three-year strategic plan as a proactive, regionally focused, specialist asset manager where we set three measurable targets: (i) to achieve operating profitability before fair value movements, realised gains and all non-cash charges; (ii) to expand the Group's assets under management ("AuM") to at least £1.0billion; and (iii) to 'evergreen' Mercia's balance sheet so that the Group's direct investment activities are fully funded by periodic cash realisations from the existing portfolio.

During the last 12 months we completed the acquisition of the three VCT fund management contracts ('the Northern VCT contracts') from NVM Private Equity LLP, increasing our AuM by c.58% to c.£800million. These contracts brought with them additional recurring revenues, which have helped bring us to our goal of trading profitably on a 'net revenues' basis, one year earlier than planned. The transaction also resulted in the talented VCT investment team joining Mercia.

Following the acquisition, 82% of Mercia's AuM is now in third-party funds under management ("FuM") (up from 23% of AuM at our IPO in 2014) with the balance of 18% represented by our consolidated balance sheet. We expect this shift towards FuM to continue as our fund management business develops further.

The £30.0million placing in December 2019 allowed us to complete the VCT acquisition and has provided us with additional capital to support our objective of achieving evergreen status for our direct investment portfolio.

In 2020, revenue increased by 19.4% to £12.7million (2019: £10.7million), which enabled the Group to move from net expenses of £1.4million in 2019 to net revenues of £0.1million, an improvement of £1.5million. Unrestricted cash increased to £30.2million (2019: £29.8million). Largely as a result of the impact of COVID-19 on asset prices, the direct investment portfolio's fair value decreased by 15.3%. This reduction also contributed to net assets at the year end being £141.5million (2019: £126.1million).

COVID-19

The initial outbreak in China in December 2019 immediately impacted on certain supply chains within our direct portfolio and, in addition, the subsequent lockdown of circa one third of the planet resulted in lost or reduced customer demand.

We now face the possibility of one of the largest global economic recessions since the 1930s, with domestic debt exceeding that of World War I. It is my strong belief that there will be a gradual recovery over a 12 to 24-month period and that experienced investors with liquidity and preserved capability will be well placed.

Mercia's investment model was developed to counter the inevitability of cyclical markets, with many of the team at Mercia having invested through the cycles of 2000 and 2008. Mercia's model is to seek material influence (c.20–40% stakes) in companies that have relatively modest capital needs – typically less than £10.0million – with realistic entry valuations. This, together with our strong liquidity, positions us well to support our investee companies and influence appropriate decision making at this time.

Sadly, in every correction there are both winners and losers. Businesses with near-term profitable business models and business-to-business ("B2B") operations with strong recurring revenue in favoured sectors such as software, digital entertainment, medtech, digital healthcare, diagnostics and biotech will likely benefit. Within our direct investment portfolio, Warwick Acoustics, Impression Technologies (both serving the automotive sector), Crowd Reactive (events management) and LM Technologies (Chinese supply chain) have inevitably suffered. However, others have benefitted: within the biotech sector, OXGENE and The Native Antigen Company; within digital home entertainment, nDreams and Soccer Manager; and Intechnica within online queue management and website defence. Reflecting structural changes and new emerging sectors, we have remodelled or pivoted certain portfolio companies and revised our investment approach to new prospects, to reflect this emerging paradigm.

Fund performance

Mercia's investment model is to target appropriately priced regional businesses seeking modest capital to, in part, protect Mercia from major cyclical corrections. We have performed a thorough COVID-19 analysis across the whole Mercia portfolio and adjusted valuations accordingly. Although our venture and private equity portfolios are not immune to these asset price corrections, we believe that they are weathering the storm, compared to the broader industry, with fund portfolio fair value movements between +10% to -30% as at 31 March 2020.

Venture

Mercia benefits from a diversified venture portfolio of 233 businesses across different sectors and stages of development. As a direct consequence of COVID-19 there has been an inevitable fair value movement in many investee holding values resulting in fund portfolio valuations being adjusted in the year ranging from up by 10% to down by 31%.

Private equity

Our first private equity fund to be fully unwound is another regional fund, the Coalfields Growth Fund ("CGF"), which has generated an internal rate of return ("IRR") of 19.8% and distributions to paid-in capital ("DPI") of 167%. This fund benefitted from a portfolio of eight companies generating five trade sales at multiples above cost. The notable exit of Woodall Nicholson in March 2020 generated a return of c.9.6x on the original cost. The COVID-19 impact on holding values across our active private equity FuM has contributed to a reduction in fair values of 7% to 31%.

Debt

Mercia's debt funds have been actively lending throughout the year and our recent Coronavirus Business Interruption Loan Scheme ("CBILS") accreditation will enable us to further support regional businesses through these challenging times.

Balance sheet

The average holding period of our direct investments is just under three years with an expectation that investments will be realised over a three to seven-year time frame from initial investment. Since Mercia's IPO in December 2014, we have invested £94.7million into our current direct investments, plus a further net £1.3million as a cornerstone investor in four of our managed funds. Thus far we have generated £14.5million in realised returns. The net asset value of our direct investments at the year end was £87.5million (2019: £87.7million), with the overall reduction being largely as a result of the impact of COVID-19.

Portfolio highlights

Some of the investments within our FuM and our direct investment portfolios are starting to create significant value.

Notable direct investments initially supported by our FuM include: OXGENE (a promising synthetic biology business that is growing rapidly, with revenues up by c.240% in the past 12 months), nDreams (a fee-for-service and proprietary content virtual reality developer benefitting from the lockdown period with revenue growth of c.100%), Intechnica (providing bot analytics and website optimisation services and tools, with strong revenue growth of c.50%) and The Native Antigen Company (a leading provider of COVID-19 antigens for diagnostic, vaccine, research and development purposes, with revenue growth of over 200%).

Notable venture portfolio companies within our FuM include: Abingdon Health, which amongst other programmes, is involved in the fight against COVID-19, and is a founding member of the UK's rapid test consortium ("UK-RTC") leading the assay development programme in partnership with the University of Oxford; Axis Spine, which has recently received US Food and Drug Administration ("FDA") approval for its lead product addressing the lucrative US spinal implant sector, valued annually at c.£7billion; and Sense Biodetection, which is developing a point-of-care instrument-free bacterial and viral pathogen diagnostic tool for a variety of infectious agents, including COVID-19.

Outlook

As Chief Executive, my priorities at this time are to ensure that Mercia is financially robust and operationally agile, with strong liquidity and preserved capability. As the economic environment toughens, which I expect it to, this ensures that we are resilient to the downturn and able to support our existing portfolio, whilst being prepared to take advantage of the opportunities that will undoubtedly lie ahead for those with strong liquidity and available capital to deploy.

We have entered our new financial year debt-free and with unrestricted liquidity of c.£290million to invest across our FuM portfolios, plus c.£30million for direct investing. We remain focused on transactions of typically less than £10.0million, leveraging the asset classes we have across the Group. We are uniquely positioned to combine equity with debt finance, via our third-party FuM as well as with our proprietary balance sheet capital, where appropriate.

Over the medium term, I believe the economic recovery will be beneficial to the types of businesses that we have traditionally supported, particularly those in medtech and diagnostics, digital entertainment and e-commerce support platforms. Notwithstanding the current reduction in asset price linked fund management revenues, Mercia has begun the new financial year trading profitably, which we expect to continue. The long-term potential of our direct investment portfolio, with its relatively modest capital needs, remains positive and we expect the value of this maturing portfolio to accelerate beyond the COVID-19 pandemic. None of Mercia's staff have been furloughed during the lockdown and the Company has not applied for any Government funding schemes, save on behalf of our portfolio companies, as we continue to behave as a responsible and supportive regional investor. I have confidence in Mercia's intrinsic strengths and these are reflected in our own core values. During the recent period of remote working, Mercia's 93 employees have been remarkably resilient and supportive of each other and of those around us. I am proud of the work we are doing in the regions as we seek to strengthen our portfolio, as a trusted partner to regional business and thus safeguard employment and economic prospects. Internally, we reference the Group as #OneMercia and I welcome the excellent people who have recently joined us through the acquisition of the Northern VCT contracts. I would like to thank our entire valued team for their continued drive, commitment and professionalism.

Dr Mark Payton
Chief Executive Officer

Strategic execution

Since our IPO in December 2014, we have strengthened the Group through targeted strategic acquisitions, increasing our scale, the breadth and depth of our offering and now our profitability.

In December 2019 Mercia acquired three venture capital trust ("VCT") fund management contracts ('the Northern VCTs') from NVM Private Equity LLP and simultaneously raised £30.0million, accelerating its progress towards its goals of reaching £1.0billion AuM, operating profitability and an evergreen balance sheet.

Significant value creation opportunities

The acquisition of the VCT fund management business is a critical inflection point for the Group, significantly increasing our scale, adding a new investment product to our offering, additional capability to our investment team and a portfolio of maturing VCT investee companies.

Scaling accelerates path to profitability

With the acquisition of the VCT fund management business, Mercia's total AuM grew by c.£250million (an increase of c.50% at the time of the acquisition) bringing in additional recurring revenues that will make us profitable at an operating level (before fair value adjustments, realisation gains and all non-cash charges). This is a considerable step towards developing a fully sustainable business model. Looking forward, the acquisition strengthens our ability to raise and win new fund mandates, continuing to grow our fund management business and future financial returns for the Group. Pleasingly, post period end in April 2020 the Northern VCTs raised £38.2million in a market environment drastically affected by COVID-19, demonstrating the quality, robustness and reputation of the three Northern VCTs.

NVM's portfolio and liquidity cement our position

The acquisition of the VCT fund management business complements Mercia's Complete Connected Capital model and cements our position as one of the foremost regional providers of capital to growing SMEs. Together, the Northern VCTs' portfolio consists of c.60 companies, including 17 listed companies, 27 private venture companies and 16 private equity companies. This extensive portfolio creates new opportunities for our direct investment portfolio.

Liquidity is a key success factor in our business. This makes us a preferred choice for quality, potential investee companies and gives us flexibility to support and manage our portfolios as companies mature. Following the acquisition, Mercia has £30.2million of unrestricted cash to invest from its own balance sheet.

Finally, the £30.0million placing associated with the acquisition strengthened the Company's financial position and its shareholder register, bringing in new investors, which will enhance liquidity for our shareholders.

VCTs' FuM at date of acquisition

c.£270m

Funds raised in 2020

£38.2m

Creating value

- **Accelerates progress towards £1.0bn AuM bringing in c.£250m AuM**
- **Increases Mercia's recurring revenue base and operating profit contribution**
- **Complements Mercia's Complete Connected Capital model**
- **Makes Mercia a leading provider of regional seed and growth capital**
- **Expands the Group's liquidity to deploy into regional SMEs**
- **Broadens Mercia's origination network**
- **Expands the direct investment opportunities through the VCTs' underlying portfolios**

Tim Levett
VCT Investment
Committee.

£25.0m
acquisition

Mercia successfully raised £30.0million and completed the acquisition of three VCT fund management contracts from NVM Private Equity LLP.

Key performance indicators

Strategic priorities

We focus on UK regional opportunities where our strong capital position can help create material value for all our stakeholders over the medium term. Scaling FuM combined with tight cost control has also enabled the Group to reach trading profitability one year ahead of plan.

Indicator	How it was measured	Performance
Growth in value of the Group's portfolio through investment activity	Measured in terms of the gross cash invested in direct investments	**£17.5m** 2020 £17.5m 2019 £19.4m The Group has demonstrated continued investment activity resulting in growth in the value of its direct investment portfolio through the gross amount of cash invested
Growth in value of the Group's portfolio through fair value movements	Measured in terms of the net fair value (loss)/gain arising in the value of the portfolio using established valuation methodologies based on the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG")	**£(15.8)m** 2020 £(15.8)m 2019 £3.9m Reflects a year of continuing positive overall momentum until impacted just before the year end by the significant correction in asset prices resulting from the COVID-19 pandemic
Number of companies invested in during the year	Measured in terms of all companies invested in (both existing and new direct investments) during the year	**18** 2020 18 2019 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	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	**£30.2m** 2020 £30.2m 2019 £29.8m Mercia continues to have sufficient liquidity for its direct investing and operating activities

Indicator	How it was measured	Performance
Third-party funds under management ("FuM")	Measured in terms of fund management contracts secured and under active management	**c.£658m** 2020 c.£658m 2019 c.£381m The FuM increase was mainly due to the acquisition of the VCT fund management contracts, offset by distributions to fund investors and fair value impairments
Investment realisation proceeds received	Measured in terms of the cash proceeds received from realised investments	**£0.0m** 2020 £0.0m 2019 £0.0m No cash realisations were completed during the year, although external interest in the Group's direct investments is increasing. Post year end £4.8million was received from the sale of The Native Antigen Company
Revenue	Measured in terms of all revenues derived from both fund management and direct investing activities	**£12.7m** 2020 £12.7m 2019 £10.7m The Group's revenue increase was largely derived from the acquisition of the VCT fund management contracts
Net revenues/ (expenses)	Measured in terms of total revenues less all staff and administrative expenses	**£0.1m** 2020 £0.1m 2019 £(1.4)m In 2020 the Group reached the turning point where its total revenues exceeded its total operating costs
Net asset value per share	Measured in terms of the Group's consolidated balance sheet net assets divided by the number of shares in issue at the year end	**32.1p** 2020 32.1p 2019 41.6p The Group's net asset value per share reduced due to the dilutive impact of the placing in December 2019 and the near-term impact of the COVID-19 pandemic on the direct investment portfolio valuation

> As we enter the new financial year we do so with a well-assembled portfolio of companies that are aware of the challenges and opportunities that lie ahead.

Deepening management capabilities

At the beginning of the financial year, I encouraged our investment teams to focus on two areas that will accelerate value creation across our portfolios: building out the management teams of our investee companies, where appropriate, through the addition of chairs and non-executive directors via Mercia's talent Platform; and further developing our network of co-investors. We have made significant progress on both fronts, although the positive effect on our financial results has been masked to a large degree by the current impact on asset prices from the COVID-19 pandemic.

Deepening management capabilities

We have focused on increasing the collective capability of the management teams that we are backing. Through our talent resourcing capabilities, we have introduced companies to experienced board-level support, helped our portfolio make 33 senior non-executive director board appointments and enabled the development of powerful leadership teams. We are also building a collective of successful managers with complementary skills to support our portfolio, including CFO input, sales process design, new market entry and regulatory expertise.

Mercia's network is an integral part of our approach to adding value by building a strong base of experienced connections, underpinned by the online and offline communication we offer. We make a Slack channel available to all of our CEOs to enable them to correspond directly with each other, to share and seek ad hoc advice and commercial insight, thereby creating a network of opportunities across the portfolio. We see this as an invaluable informal mentoring and development tool. Our connected approach means that we can help our portfolio companies' management teams to take advantage of the opportunities ahead of them and provide them with guidance as they navigate the inevitable issues associated with growing and scaling young businesses.

Expanding our network of co-investors

Expanding our network of like-minded co-investors is critical to ensure that as our portfolio continues to mature and grow, we can provide companies with the scale-up capital required, while bringing along partners that share our vision and expand our opportunities for an exit at the right time. Our efforts during the year resulted in 12 new investment partners joining syndicates across our portfolio.

COVID-19

The COVID-19 pandemic has been an incredibly difficult and stressful time for our entrepreneurs and management teams; we have seen them act decisively and sensibly at a time of great uncertainty and I pay tribute to them all.

At Mercia we reacted swiftly to the lockdown. Our priority was to ensure that our entire portfolio understood the critical need for cash management, extending their cash runways to enable them, and Mercia, to assess the longer-term effects of COVID-19 on their businesses. We conducted a survey of the portfolio at the beginning of the lockdown and quickly crafted and delivered a series of webinars to support the portfolio around their critical concerns, ranging from cash management and how to access the various government support schemes, to post-COVID-19 strategy and recovery, ensuring that support went beyond firefighting, looking at how to manage the exit from lockdown and position businesses favourably to take advantage of opportunities that might lie ahead.

In early March we assessed the likely medium and longer-term effects of COVID-19 across our portfolio of companies based on 13 criteria, including reliance on supply chains, management response, business disruption, balance sheet strength, co-investors and cash runway. The results provided immediate visibility of priorities and needs. Our newly acquired venture capital trust ("VCT") operation was able to review and report on its entire portfolio of c.60 companies, including a revaluation of the net asset position ahead of the £38.2million successful fundraise, announced on 3 April 2020. We are conducting regular reviews to establish whether any COVID-19 related impact on our entire portfolio of companies represents a temporary pause on progress or a fundamental challenge to their business model.

We are in the strong position of having significant liquidity of c.£320million across all our asset classes. We also have the analytical tools and skills within the team to allocate funds effectively, both in our existing portfolio and in new opportunities for the long-term benefit of our shareholders and investors in our funds.

Portfolio update

Managed funds: five exits and good performance by debt funds

Investment and lending performance are at the heart of what we do. Our third-party managed funds continued their prior year momentum, performing well against their mandates. Across our managed funds, we invested a total of £59.7million into 109 existing and 46 new portfolio companies.

Five exits were completed in the year, which have now delivered a total return of £16.3million over the holding period of the investments. The most significant was Woodall Nicholson, a company in our private equity ("PE") funds which was sold in late March 2020 to another PE house, delivering a 9.6x return on the original cost. The Coalfields Growth Fund ("CGF") invested £1.0million into Woodall Nicholson in 2013, realised 1.9x in 2016 from a partial sale to the Business Growth Fund and, in total, realised £9.3million. CGF as a whole has now generated an IRR of 19.8%.

A second example is Granby Marketing Services, a marketing logistics company in our PE funds that delivered a 2.13x return on cost via a management buyback. The EV Growth Fund ("EVGF") invested £1.4million into the company in 2013.

Until the arrival of COVID-19 our debt funds were also maintaining their good overall performance. Our Finance Yorkshire Loan Fund ("FYLF") now has less than £0.1million remaining to be repaid from a total of £41.6million lent since the last recession in 2010. It has returned a total of £44.5million: a legacy which is c.£4million greater than was originally anticipated from this 'Gap' Fund.

Managed funds highlights

Mercia continued to invest carefully and selectively during the challenging environment created by COVID-19 in the fourth quarter of the financial year. We did experience a slowdown in demand for funding with equity syndicates weakening across the portfolio as other institutional investors and angel groups scaled back their investment activity. This placed a higher burden on the managed funds to provide greater financial support to the portfolio in the form of follow-on funding.

Over the last year, the Midlands Engine Investment Fund Proof-of-Concept Fund ("MEIF POC"), a £23.5million fund, invested £3.8million into 18 companies, 15 follow-on investments into existing portfolio companies and three new deals: Industrial Phycology ('I-PHYC'), a pre-revenue start-up company developing a modular wastewater treatment system based on their novel algal bioreactor; Iventis, a Lincolnshire-based software business whose core product is a platform designed for a large number of users to collaboratively plan complex operations or major events such as the Olympics; and Ebate, a software-as-a-service ("Saas") business. The MEIF POC Fund was established in 2018 to provide early-stage capital to innovative businesses across a wide area of the Midlands.

In the North of England, the Northern Powerhouse Investment Fund ("NPIF"), with a mandate to deploy c.£58million in both equity and debt to SMEs in the region, completed 32 transactions investing a total of £11.8million, of which £7.0million (c.60%) was provided to 10 new businesses across the Yorkshire, Humber and Tees Valley region, with the balance of £4.8million invested into 22 follow-on investments across 15 existing portfolio businesses. Cumulatively, since being awarded the mandate in February 2017, the NPIF equity fund has invested £36.0million into a portfolio of 47 businesses as at 31 March 2020. In April 2020, Mercia's NPIF equity mandate was increased by a further £23.7million.

Within the NPIF equity fund is Abingdon Health, a lateral flow rapid test manufacturer, which has been involved in the fight against COVID-19. It is one of the founding members of the UK's rapid test consortium ("UK-RTC") and has led the assay development programme in partnership with the University of Oxford.

The North East Venture Fund ("NEVF") had a solid year, concluding 13 transactions and investing a total of £4.2million. Of those transactions, eight were new deals and five were follow-on investments into existing portfolio companies. The Northern VCTs co-invested directly alongside NEVF in Nutshell Software, demonstrating the value of our Complete Connected Capital.

During the year, Mercia's debt team provided £14.5million of funding in 46 transactions via the EV SME Loans Fund and the NPIF debt fund. In April 2020 Mercia's NPIF debt mandate was increased by a further £30.6million, increasing the size of the NPIF debt fund to over £80million to support profitable SMEs as they seek to recover from the impact of COVID-19. Notable amongst the new loans made was one to Rothband, where Mercia supported the management of this medical imaging business in their buy-out of an institutional investor and another to Forward2me, an online logistics business, where Mercia enabled the buy-out of a retiring shareholder.

Private equity continued its strong performance up to early March 2020. Enterprise Ventures Growth Fund II ("EVGII") invested £10.7million, completing three new investments together with one follow-on investment. Most notable amongst the new investments was Total Resources Holdings, an MBO that also included £2.0million of debt support from other Mercia third-party funds.

Both EVGF and CGF are now in their divestment phase although each has already returned the investors' original capital, cleared the hurdle and are now paying periodic carried interest to Mercia.

Direct investments – operational progress: valuations impacted by COVID-19

Valuations

At the half year we reported £3.2million of net upward fair value movements across our direct investment portfolio, and this trend was set to continue through the second half of the financial year, until the emergence of COVID-19. As at 31 March 2020 the value of the Group's direct investment portfolio was £87.5million (2019: £87.7million). This reflects a downward movement in fair value for the full year of £15.9million after net investment in the year of £15.7million (2019: £17.7million).

We have recorded fair value gains in respect of OXGENE (£1.6million), The Native Antigen Company (£0.6million), Voxpopme (£1.0million) and Soccer Manager (£0.1million) in line with our valuation policy, which follows the International Private Equity and Venture Capital Valuations Guidelines ("IPEVCVG"). The fair value gains in OXGENE and Voxpopme relate to third-party investment and in the case of The Native Antigen Company, as the business is increasingly profitable and cash generative, the uplift in fair value reflects the tangible progress made.

We have taken a careful case-by-case review of the likely effects of COVID-19 on each of our portfolio companies, and where we see that the enterprise value has been affected by either delay, uncertainty, or potential dilution to our stake, we have adjusted the carrying values. We see the effects of COVID-19 being potentially significant within the automotive sector, as original equipment manufacturers ("OEMs") struggle with lower demand, supply chain issues and their own funding situations. This is likely to slow progress at Warwick Acoustics and Impression Technologies. We have therefore decreased the carrying values of these companies by £5.3million and £3.1million respectively.

In the events sector, Crowd Reactive has been materially impacted by COVID-19. At the time of the announcement of our interim results in December 2019, the company was trading well and was discussing a new funding round with a number of investors; we therefore provided new working capital to deliver on a record order book for 2020. However, since February 2020, the order book has dissipated with little visibility of a return to normality. We have therefore taken the difficult decision not to support the company further and have accepted an offer from management to a partial repayment of our investment, resulting in a £2.1million fair value decrease as at 31 March 2020.

Other fair value decreases reflective of COVID-19 related sentiment included LM Technologies (£2.1million) and Eyoto Group (£0.9million). We also recognised a fair value decrease of £1.4million in Concepta, an investment which is listed on AIM so is valued at its bid price as at 31 March 2020. Following a period of underperformance, the company has undergone significant management changes, and as a sign of our continued faith in its products, market opportunity and new team, we participated in the company's successful £1.9million placing in April 2020.

Investment activity

We have continued to support our largest and most promising assets, with both capital and resource. £9.0million of the £15.7million invested during the year was allocated across our top 10 assets including nDreams, Intechnica, Medherant, Voxpopme, Impression Technologies and Faradion. As many of our direct investment portfolio companies now look to scale their growth, our aim remains to build and/or maintain material equity stakes at c.20%–40%, whilst increasingly looking to bring in new third-party capital.

We made one new direct investment during the year into One Touch Apps, trading as Clear Review, a company from our third-party funds. Clear Review is a SaaS business providing HR management tools.
HR technology remains an exciting sector, indicative of the overall momentum of Clear Review, which passed £2.0million in annual recurring revenue ("ARR") in December 2019, less than a year after reaching its £1.0million ARR milestone. At the end of March 2020, the company's ARR run rate was £2.3million.

Mercia first invested in Clear Review in 2018 through its managed funds and made an initial £0.5million direct equity investment alongside co-investor Albion VCT in June 2019.

Direct investments: operational highlights

The last year was significant for a number of our businesses, with nDreams, OXGENE, Soccer Manager and Clear Review all doubling their revenues and Voxpopme and The Native Antigen Company also showing sizeable revenue growth.

It is also worth noting the progress made by Intechnica, Medherant and Faradion.

Intechnica, a digital performance company, grew revenues by c.50% in the year to c.£9million, winning new clients for its bot management product, Netacea. Netacea was identified by Forrester as "leading the pack" in the sector. Its virtual waiting room product for ecommerce businesses has also gained traction, winning projects with Ocado and Pets at Home.

Medherant, a transdermal drug delivery company that has two unpartnered lead products – an Ibuprofen patch at clinical stage and a pre-clinical product addressing smoking cessation – has entered into a partnership with Cycle Pharmaceuticals to develop new products using its proprietary TEPI Patch® technology. This partnership demonstrates the potential of further licensing opportunities and the commercialisation of Medherant's innovative technology for the administering of medicines to patients with rare neurological disorders.

Faradion has also made significant progress with its battery cell technology, developing a number of partnerships and announcing its first order from its joint venture partner, ICM Australia, for its high-energy sodium-ion batteries. Faradion's sodium-ion technology provides similar performance to conventional chemistries, while replacing expensive materials such as cobalt and lithium with the far more abundant sodium. We are encouraged by Faradion's potential, as unlike lithium-ion batteries, its sodium-ion batteries have exceptional thermal stability and can be safely transported and maintained at zero volts.

Portfolio overview and liquidity

Venture	Private equity	Debt	Balance sheet
Total portfolio **233**	Total portfolio **10**	Total portfolio **119**	Total portfolio **25**
Total FuM **£475.6m**	Total FuM **£59.8m**	Total FuM **£121.8m**	Total NAV **£141.5m**
Liquidity **£184.4m**	Liquidity **£24.3m**	Liquidity **£76.9m**	Liquidity **£30.2m**

Post period end developments

Investment activity has continued since the financial year end with new funding rounds for OXGENE, Eyoto Group and Medherant, into which we have invested £1.0million, £0.5million and £1.4million respectively. We have also continued to provide financial support to W2 Global Data Solutions, Warwick Acoustics and VirtTrade, as these companies make progress.

Concepta announced its £1.9million placing in April 2020, with Mercia investing £0.7million (£0.2million from its balance sheet and £0.5million from its EIS funds). The company now has a new executive team, strategy and reduced cash burn rate.

Also in April 2020, we were pleased to announce that the three Northern VCTs had raised £38.2million in new capital through the share offers that were launched in January 2020, despite what became a very challenging market environment. In addition, continuing confidence in our reputation and track record was expressed through the additional £54.3million allocation from the British Business Bank ("BBB") into Mercia's two existing investment mandates covering the Northern Powerhouse region, with £23.7million being allocated to Mercia's existing NPIF equity fund and £30.6million to the NPIF debt fund. Shortly thereafter, we were delighted to announce that we were accredited by BBB under CBILS, which enables us to increase our lending to all eligible regional SMEs, further underpinning both our leadership in regional capital deployment and our Complete Connected Capital model, as we entered the new financial year.

On 1 July 2020 MIP Diagnostics ("MIP") became a new direct investment. Mercia's balance sheet committed £0.5million alongside £0.6million from Mercia's EIS funds as part of a £5.1million syndicated funding round. A spinout from the University of Leicester (a partner university) and originally supported via Mercia's managed third-party funds in 2015 (which hold a c.28% equity stake in addition to Mercia's direct stake), MIP has developed a disruptive platform technology seeking to address the c.$85billion antibody market using synthetic antibodies via a process known as Molecularly Imprinted Polymers. The MIP deal also demonstrates our continued focus on expanding our networks of co-investors, with the Business Growth Fund, Downing Ventures and Calculus Capital as co-investment partners.

We are also working with the Future Fund on a number of investments into companies across our portfolios, including 11 in our direct portfolio, to extend investee company liquidity through to 2021.

On 9 July we announced the profitable sale of The Native Antigen Company Limited ("NAC") to LGC, a global leader in the life sciences tools sector, for a total cash consideration of up to £18.0million. Mercia held a 29.4% fully diluted direct holding in NAC at the date of sale and will receive initial cash proceeds of £4.8million, with up to a further £0.4million receivable upon finalisation of customary closing working capital calculations. The sale is anticipated to generate an 8.4x return on its original direct investment cost and a 65% internal rate of return ("IRR").

Mercia first invested in NAC in 2011 through its third-party managed funds (which as at 31 March 2020 held an additional combined stake of 20.9%) and subsequently, from its own balance sheet as a direct investment in December 2014. In addition to the direct investment returns, the sale will generate a 12.1x return on a blended third-party managed funds investment cost and a 31% funds IRR. Mercia has proactively supported NAC since its first day of trading, including representation from Mercia's Chief Operating Officer, Peter Dines, as a non-executive director on the NAC board through to exit.

NAC was founded in 2010, as a divestiture from a University of Birmingham spinout company, and has since become one of the world's leading suppliers of infectious disease reagents, widely acknowledged as being a primary source of reagents for the study of emerging diseases.

Summary

These results reflect the strength of our diverse investment platform, albeit currently impacted by COVID-19, and the experienced team that has managed these investments against a deteriorating macroeconomic backdrop. We remain cautious investors and our focus on investing in regional companies with moderate capital needs, where we believe that we can add value, has ensured that as we enter the new financial year we do so with a well-assembled portfolio of companies that are aware of the challenges and opportunities that lie ahead. We will continue to add selectively to the direct investment portfolio over the coming financial year and will continue to support both it and our fund portfolios, to deliver strong long-term investment performance for our shareholders and fund investors.

Julian Viggars
Chief Investment Officer

Venture

Backing the businesses of tomorrow

Venture investing is what Mercia is most well known for. The acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP solidifies Mercia's dominant position as an important provider of venture capital in the regions. Post acquisition, we have c.£184million liquidity to invest into the buoyant early-stage sector with the added ability to further support ambitious SME growth with follow-on funding from the VCTs. We have already concluded our first deal alongside the VCTs.

The addition of the c.60 VCT portfolio companies takes Mercia's managed funds' portfolio to c.390.

We remain an approved partner to the British Business Bank ("BBB"), on behalf of which we manage more than £180million of funds. This is an important partnership for Mercia and the continued confidence that BBB has in the Group has been demonstrated by the deed of variation that BBB signed after the financial year end, increasing the fund size by £23.7million.

The regional venture funds are led by Will Clark, Managing Director, Regional Venture Funds who embodies Mercia's proactive approach. By carefully selecting niche opportunities, which are often hidden in the UK regions, we leverage our networks to build strong management teams and accelerate growth for the brightest SMEs in the regions.

Enquiries
2,704

Total transaction value
£34.4m

ABINGDON HEALTH

Lateral flow rapid test services

Tackling diagnostics has never been so important and York-based Abingdon Health is a good example of one managed fund portfolio company that has been involved in the fight against COVID-19. It is one of the founding members of the UK's rapid test consortium ("UK-RTC") and has led the assay development programme in partnership with the University of Oxford.

Healthy investment

Abingdon Health received £1.5million from Mercia's NPIF equity fund in January 2019 and revenue increased by 83% from 2018 to 2019 (calendar year).

Abingdon Health is using the investment from Mercia to build out its lateral flow development and manufacturing capabilities and invest in its AppDx lateral flow reader technology. It is not just focused on the healthcare sector; it also targets animal health, plant health and environmental testing, ensuring a diversified and sustainable target market.

CURRENTBODY
THE BEAUTY DEVICE EXPERTS

Specialist online retailer

Currentbody is the only specialist online retailer for home-use beauty devices. Safe, effective treatments for hair removal, anti-ageing and skin care allow consumers to access the same advanced technology used by professional clinics, but in the comfort of their own home.

Specialist syndication

The home beauty market is now estimated to be worth over $4billion. The investment from Mercia's VCT business has helped Currentbody to grow on a global scale with 11 websites and a joint venture in China with Thakral. More recently Mercia has been joined by the Business Growth Fund to further back Currentbody's growth plans.

SHE
Configurable EHS Software

Specialist safety software provider

Health and safety software provider, SHE Software, provides a proprietary platform to improve workplace safety, driving substantial cost savings and stronger compliance compared to traditional systems.

Safety in numbers

The company has won several awards for its innovative approach and is recognised in the Verdantix Green Quadrant as a specialist. Its solution is used by blue-chip customers including Network Rail and Eddie Stobart as well as public sector organisations such as the NHS and several universities.

Private equity

Backing ambitious management teams

Whilst Mercia's track record in the private equity space is relatively new compared to its other asset classes, it has generated impressive returns following the launch of its first fund in 2009.

Mercia has a proven strategy with well-managed risks:

- Successful companies and management teams with long-term growth plans
- Focus on aligned interests and strong working relationships
- Incremental improvements to increase efficiency and reach critical mass
- Bringing operational capability to less sophisticated businesses

The team is led by Managing Director, Mercia PE Funds, Wayne Thomas, a chartered accountant who joined the Group almost 15 years ago.

Enquiries

135

Total transaction value

£10.7m

Woodall Nicholson group est 1820

Woodall Nicholson has been a coachbuilder since 1820. It has manufacturing operations in the North of England, the Midlands and Germany in three specialist vehicle divisions: Mellor and Treka buses, Coleman Milne and Binz International ceremonial vehicles, and emergency services.

Driving realisation

Mercia invested in Woodall Nicholson in 2013 in a syndicated transaction and since then the investment team, led by Wayne Thomas, has been closely involved in developing the business. During this time sales at Woodall Nicholson have grown by almost 500% from £20.0million to £95.0million.

The Group's maiden private equity fund successfully completed its highest value exit so far, having sold a stake in the Greater Manchester-based designers and manufacturers of specialist vehicles, Woodall Nicholson Group Limited, at a multiple of 9.6 times the original investment.

Since Mercia's initial investment the group has achieved more than four-fold growth. With recent international expansion, electric vehicle developments and continued innovation in market-leading products, the group's growth potential is very exciting. As a result, all incumbent shareholders have opted to reinvest alongside the acquirer, Rutland, to be part of the next stage.

Brian Davidson
Continuing Chairman of Woodall Nicholson Group.

Woodall Nicholson is a great success for both Mercia's private equity funds and its management team. Brian's team has transformed this business into an innovative, world-leading specialist vehicle manufacturer which is growing in Scandinavia, Germany, the Netherlands, Australia, New Zealand and the Far East as well as in the UK. Mercia's 9.6x exit from Woodall Nicholson is the latest in a series of successful exits for the EV Growth Fund, which invests in regionally-based UK SMEs, generating an internal rate of return ("IRR") of 70% over seven years.

Wayne Thomas
Managing Director, Mercia PE Funds.

Debt finance

Backing robust businesses

Mercia provides debt finance to ambitious small companies. The portfolio's characteristics are broad, crossing a range of business activities from complex, cutting-edge technology, through to more traditional service businesses. The one thing that all the debt portfolio companies have in common is that they are led by robust management teams, committed to growing their businesses.

Mercia's debt funds are led by Paul Taberner who is the highly experienced Managing Director, Mercia Debt Funds.

Deal flow for the debt funds comes from the investment team's extensive network with the regional banking community, with many of the investment team members themselves having previously worked for banks or alternative finance lenders.

Performance exhaust manufacturers

Cobra Sport Performance Exhausts produces stainless steel sports exhausts and is setting new standards in quality and performance through innovative design and advanced manufacturing techniques.

Powering regional ambitions

The business has grown rapidly since its first investment from Mercia in 2018, expanding its manufacturing capabilities and entering new markets. Turnover is up by 40% in a three-year period.

Mercia is a proactive investor; they are keen to see how we are progressing and are genuinely interested in the business, which is refreshing.

Rachel Abbott
CEO, Cobra.

Enquiries
457

Total transaction value
£14.5m

Balance sheet

Trusted to make a difference

Mercia's 'Complete Connected Capital' model means that we can draw upon various pools of capital, delivering the appropriate levels of investment at the right time.

This is exemplified by our direct investments where we invest our own balance sheet money to support some of the most promising businesses from within our managed funds' portfolios, offering exciting potential for value growth.

Under the leadership of Managing Director, Mercia Investments, Angela Warner, we deploy the combined skills of our investment team and the Mercia Platform to accelerate the growth of these young companies.

Total transaction value
£17.5m

# of portfolio companies
25

New companies supported
1

Critical collaborations

The Native Antigen Company fully diluted equity stake

29.4%

Tackling COVID-19 together

Two of our direct portfolio companies which we have backed since seed stage, The Native Antigen Company and OXGENE, have formed a new strategic partnership to scale up COVID-19 antigen production. This partnership has seen both companies working together towards developing more scalable technologies for cost-effective infectious disease reagent production.

The Native Antigen Company was one of the first companies to release COVID-19 antigens and needed to scale production to meet increasing demand. OXGENE has developed a proprietary technology that offers a highly scalable means of protein production, in this case COVID-19 antigens. The partnership seeks large-scale production of high-quality COVID-19 antigens, which will be a critical step toward the development of diagnostics and vaccines for this global challenge.

> **Mercia has supported both companies since their foundation and we are proud of the work they are doing to support the UK's response to COVID-19. Even during these difficult times, we continue to invest in and nurture early-stage technology businesses that will find solutions to the major global challenges we face, both now and in the future.**

Dr Mark Payton
Chief Executive Officer

OXGENE fully diluted equity stake

30.2%

The Native Antigen Company

Infectious disease reagents

Specialises in the development and manufacture of native and recombinant viral and bacterial antigens, antibodies and immunoassays, bespoke product development and custom manufacturing.

Sustained success

Since its founding, the company has grown in successive years by 92%, 61%, 25% and 22% and is now profitable and self-supporting due to its sales success.

> **Mercia has supported us with three initial rounds of funding, enabling us to grow to self-sufficiency. Their advice and support, together with the network of companies with related expertise, has been a major factor in our success.**

Andy Lane
Commercial Director, The Native Antigen Company.

OXGENE™

Mammalian cell engineering

Redefines what is possible in mammalian cell engineering across three core areas: gene therapy, gene editing and antibody therapeutics.

Engineering commercial growth

OXGENE has licensed materials to both chief medical officers and therapeutics manufacturers across the globe, while also reporting the ongoing success of several service agreements. Revenue has grown from £2.7million in 2019/20 to £6.0million this year.

> **Over the course of this financial year, OXGENE has once again doubled its revenue, with less than a 50% increase in headcount. Mercia has continued to support and encourage us through this year of growth and transition.**

Jocelyne Bath
COO, OXGENE.

Balance sheet

Award-winning VR

An award-winning virtual reality ("VR") content developer notably winning 'VR Game of Show' at E3.

nDreams

Real progress
During the past 12 months the company has secured two major contracts with leading global games companies. Revenues grew by over 100% with gross profit up by £1.0million in the same period. The company continues to scale rapidly with more than 100 people now working at nDreams. In addition, nDreams' Phantom: Covert Ops, launched on 25 June 2020 on the Oculus Rift and Quest.

"When we decided to partner with Mercia back in 2014 we couldn't have chosen a better partner to support us and help us scale, as VR moved from being a great idea with huge potential to a fast-growing entertainment sector with tens of millions of active users. Major milestones in VR are being achieved monthly – from VR games topping the all-formats games charts, to the first VR game selling over two million units. Mercia has been there every day, providing sage advice, supporting us during the tougher moments and helping us achieve the ambitious goals towards which we are all working. Phantom: Covert Ops is a great demonstration of the quality team that we are building at nDreams, and that simply wouldn't have been possible without the phenomenal support of Mercia.

Patrick O'Luanaigh
Founder & CEO, nDreams.

Video feedback platform

Voxpopme is a video feedback platform that has reimagined the way organisations connect with consumers, customers and employees by facilitating the capture and analysis of video feedback at scale.

Voxpopme®

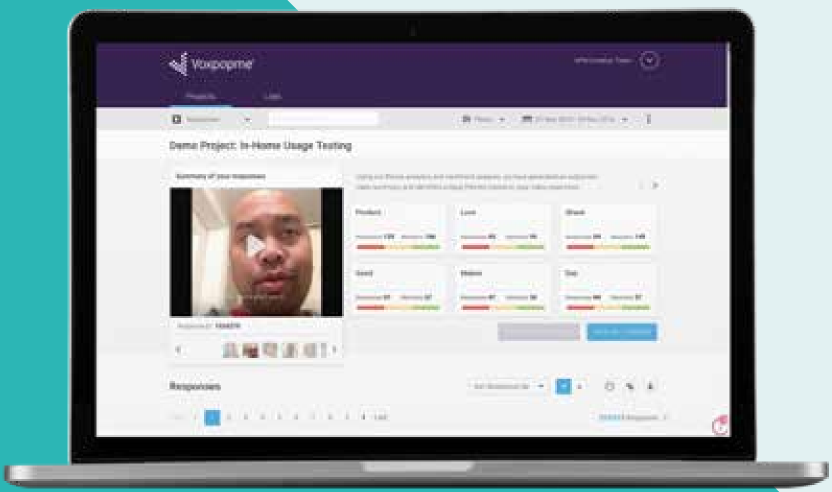
Rapid run rate

The business has demonstrated rapid growth in both the US and Europe, with recurring revenues having increased over 450% since initial investment. Customers include many of the world's best-known consumer brands – Kimberly Clark, Unilever, Mars, Mondelez, and AB InBev.

With investment from Mercia's balance sheet and venture funds in September 2019, Voxpopme illustrates the synergies between the funds, even prior to the acquisition of the VCT fund management business in December 2019.

"It's a hugely exciting time for video. It has become the pre-eminent medium for communication in all walks of life which is driving the ever-increasing demand for video feedback at the world's leading brands. Leaders in every part of every business want to see, hear and understand the people about whom they care most. Through real-time video feedback, Voxpopme gives them the tools they need to build connections and empathy, helping to make great decisions every day.

Dave Carruthers
Founder & CEO, Voxpopme.



Stakeholder engagement

Section 172 Statement

A key focus of the Board is to promote the success of the Company for the benefit of its members as a whole, whilst having regard to those specific matters outlined in Section 172 of the Companies Act 2006 ('the Act'), being:

- the likely consequences of any decision in the long term;
- the interest of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

Throughout this Annual Report and, in particular, the following pages, there are many examples of how the Board has regard for the likely consequences of any decision in the long term; the interests of our employees; the need to foster relationships with key stakeholders; the impact of our operations on the community and environment; and how the Group maintains a reputation for high standards, whilst conducting its business in a fair and responsible manner. The key stakeholders we consider in this respect are our people who work for us, our owners, our fund investors, our investee companies, our local communities and those who provide the services we rely on to operate our business.

Investor meetings

c.60

Investees' webinars hosted

23

The following statement provides an overview of how the Board performs its duties.

By the very nature of its activities, Mercia has always been a business with a long-term focus. As the graphic on page 13 shows, backing typically young, technology-led businesses requires patience, knowledge and investment/lending expertise. The Board monitors investment activity across both the Group's multiple funds and its balance sheet. Generating shareholder and fund investor returns takes time, but Mercia's growing track record of successful exits and fund IRRs is evidence that its business model is working in the interests of its investors and investees.

As a fast-growing group, day-to-day decision making and stakeholder engagement is delegated to the Executive Directors, Chief Operating Officer and other senior employees through our governance framework and therefore naturally occurs at an operational level. However, the Board regularly receives and formally meets to discuss information covering all Group activities, to help it understand and monitor the impact of the Group's operations, as well as the interest and views of key stakeholders.

This information is provided to the Board through detailed reports and in-person presentations on a wide range of stakeholder related topics. As a result of these activities, the Board has a good overview of the outcomes of stakeholder engagement throughout each financial year, enabling the Directors to comply with their duties under the Act.

For more details on how the Board operates, including a summary of its key activities during the year, see pages 60 to 62.

For more information and to see how we promote the success of our Group, the following are examples of our stakeholder engagement that have taken place during the financial year in respect of:

Our colleagues
Pages 39 to 41

Our owners
Pages 39 and 60 to 64

Our fund investors
Pages 26 and 39

Our investee companies
Pages 30 to 37 and 39

Our communities
Pages 42 to 44

01

Mercia colleagues

- Weekly 'all company' Zoom meetings now take place as a result of COVID-19, but prior to this, regular communication across the Group was conducted (and continues) in our bi-yearly State-of-the-Business update days, attended by the entire team at Mercia.
- These events are supplemented by the monthly Mercia Knowledge days that take place at different regional offices and include training or expert presentations to support continued learning and knowledge share in the business.
- Yearly away days provide more informal days for the team to engage with one another, as well as with the Executives and senior leadership team, to discuss the past year and the next 12 months ahead.
- Bi-monthly newsletters provide more personal news and views, further enhanced by Mercia's Slack channels that are division or practice-led to ensure that critical and relevant information is shared across the entire Group in a timely manner and easily understood format.

NEDs placed

33

02

Shareholders and fund investors

- The timely and accurate dissemination of regulatory and non-regulatory information through the Regulatory News Service ensures that Mercia complies with transparency legislation and keeps shareholders updated.
- Regular meetings with institutional investors; both shareholders and non-shareholders. During the last financial year our Executive team attended over 60 meetings and presentations outside of Mercia's bi-annual reporting period.
- The Executives have regularly presented at and participated in Q&As hosted by third-party media outlets for our retail shareholders. These events took place in the key cities in the regions in which we invest to ensure the team met and networked with as many shareholders as possible. In the last financial year, five events were attended.
- The investment teams for both Mercia EIS and the Northern VCTs attended and presented at a number of shareholder and intermediary events, including roadshows and round tables taking place across the regions. Importantly, they attended industry conferences and workshops to remain up to date on industry news and regulations, and equally, they presented a range of webinars to keep shareholders, fund investors and advisers abreast of Mercia's funds' performance and portfolio developments.
- Capital Market Days and Shares seminars provide visibility and depth to our stakeholder engagement, as these events broaden shareholder exposure to a range of our portfolio businesses as well as the investment team that manages both the funds and the portfolios.
- Quarterly update presentations are given to our leading fund limited partners.
- Mercia's Executive Directors attend the board meetings of the three Northern VCTs by invitation, to provide regular updates on all matters pertinent to the Northern VCTs.

03

Mercia investee companies

- Actively supporting and managing the growth of our investees is critical to us as an asset manager, demonstrated by the inclusion of key Mercia team members on the boards of these businesses. This is further underpinned by the numerous events that we host to empower these businesses' management teams and to share business knowledge. We host portfolio days with agendas that include subject experts as guest speakers, as well as smaller tailored workshops, such as our University Day, to not only actively share best practice, but also to engender improved communication across our university member network.
- Our webinars, with subjects ranging from digital prospecting to managing cash flow in times of crisis, are well attended. Since lockdown began we have designed and hosted 23 webinars that were attended by over 1,100 CEOs, chairs and decision makers from both our managed funds' and direct investment portfolios.
- We have sourced and placed 33 non-executive directors and chairs on behalf of our portfolio and equally, developed a dedicated Slack channel and organised a chair summit event that ensures that our full network of non-executives have the opportunity to better understand our investees' needs and Mercia's key business decisions and plans.
- Regular newsletters go out to all CEOs, chairs and owners in both our managed funds' and direct investment portfolios to keep them informed of all Mercia developments, business decisions and progress.
- Six-monthly Net Promoter Score surveys are conducted to ensure Mercia's continued improvement pathways are better understood and communicated to the portfolio.

Alissia Deane
Investment Associate, O2 team member.
Works within the Northern Powerhouse Investment Fund – Debt Finance.

A culture of co-operation

People remain our greatest strength. It is our colleagues who chart the course of Mercia's success, guided by their exceptional capabilities and the values that they embrace.

#OneMercia is a collective that we have defined together. Mercia's culture of co-operation is shaped by our values that support our every decision, underpins each deal and helps to build the businesses in which we invest. Our core values thread throughout the Group, reflected in our appraisal process where adherence to values accounts for 20% of every employee's financial bonus.

Our togetherness is reflected in the strong relationships that we develop both internally and externally, in the way we strive to share continual improvements and development through knowledge sharing, growth initiatives, outreach programmes and the care we offer to our colleagues, customers and communities.

We are known for our healthy competition and we embrace our professional and personal ambitions. But we are mindful of the many voices, needs and aspirations of our colleagues and seek to offer an inclusive and safe working environment that celebrates diversity and offers equality to everyone in Mercia and to all our stakeholders.

Importantly, because we build lasting relationships, we take the time to enjoy each other's company at away days, social events and increasingly online, where we have helped each other mitigate the stress of COVID-19 through regular support and social engagement.

90+
employees

#OneMercia

8
offices across the UK

Peter Dines, Chief Operating Officer

Key to the success of the day-to-day operations and responsible for all the Group's EIS investment activity, Peter engenders engaged participation across all teams, regions and projects. He is the champion of several of our key initiatives and working groups as well as heading up the VCT and EIS subsidiary of Mercia. Peter joined the Group in 2015 as Head of Life Sciences & Biosciences, with over 20 years' experience in this sector, and became Chief Operating Officer in 2018.

Collaborating for sustained growth

O2 is a working group of engaged colleagues that supports improved business processes and offers a broader range of insights to Mercia's senior leadership team. Critical to the sustained success of Mercia, this group offers the benefits of its diverse opinions, ideas and points of view that might sometimes be lost in a more hierarchical business. The members of this group not only provide better vertical channels of communication to support understanding and implementation of Mercia's strategy, they are also very proactive in providing new initiatives or insights that will shape future strategy. Many of the members of the group will choose to progress to senior roles within the business, as part of Mercia's succession planning.

Courtney Yeoman
Facilities Co-ordinator & Executive Assistant and project lead for Mercia Spirit.

Mercia Spirit

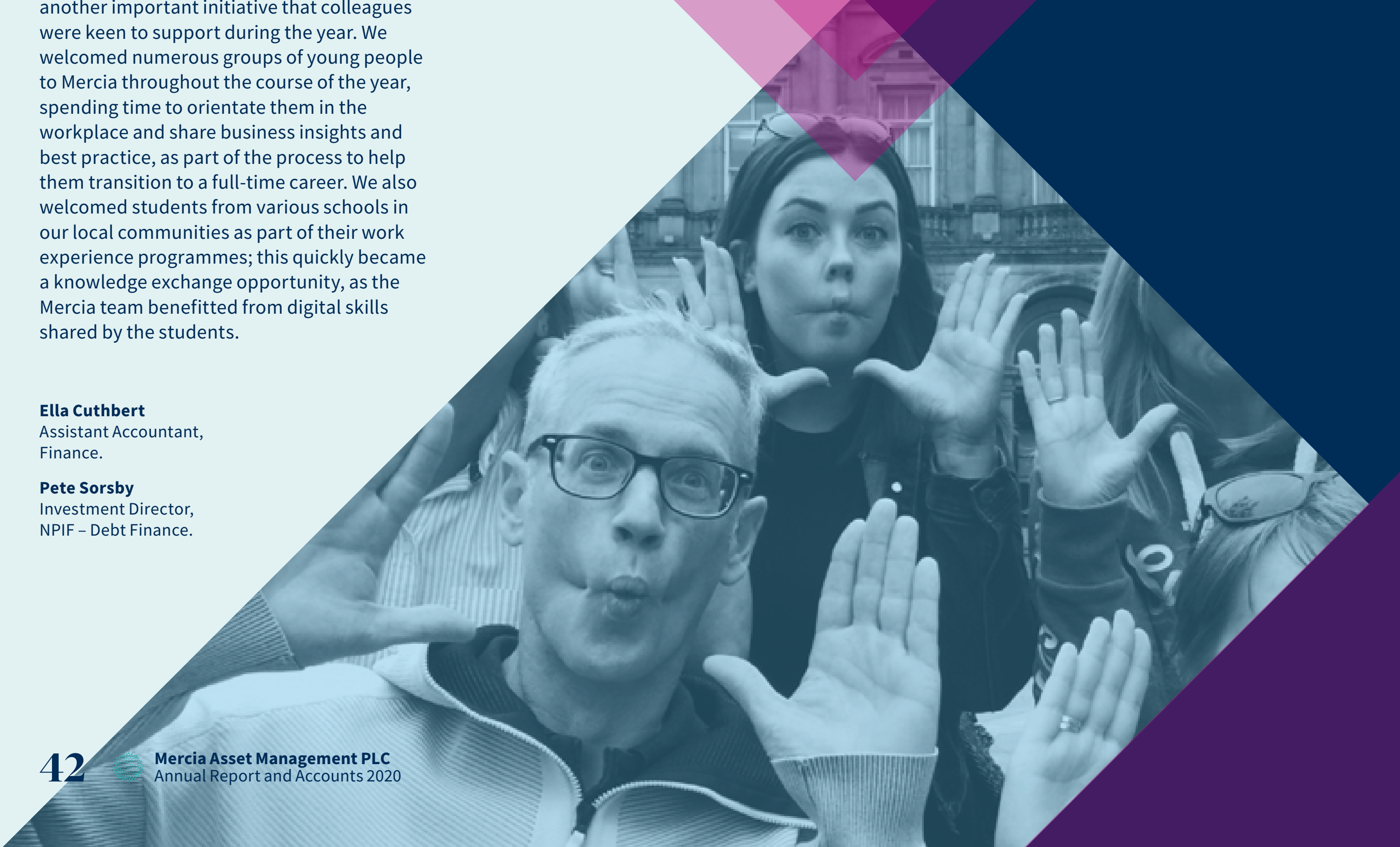
Empowering people within the business to act for the causes that matter to them, combined with the 'can-do' attitude that exists amongst colleagues, ensured that the Mercia Spirit programme exceeded all expectations in its second year.

The total amount raised in the year for Cancer Research UK was £20,597. This was achieved through the collective efforts of every colleague who provided their own time, ingenuity and occasionally sweat and tears to contribute to a charity that was chosen because of the impact that cancer has had on colleagues or their immediate families.

Money raised was as a result of half-marathons run, mountains climbed, hikes, quizzes, horse races, bake sales and the expert craftsmanship of one colleague who made a range of carved and handcrafted wooden items.

The Skills Builder Partnership, designed to help school students build key skills and be better prepared to enter the workplace, was another important initiative that colleagues were keen to support during the year. We welcomed numerous groups of young people to Mercia throughout the course of the year, spending time to orientate them in the workplace and share business insights and best practice, as part of the process to help them transition to a full-time career. We also welcomed students from various schools in our local communities as part of their work experience programmes; this quickly became a knowledge exchange opportunity, as the Mercia team benefitted from digital skills shared by the students.

c.£21k
Raised by Mercia Spirit



Ella Cuthbert
Assistant Accountant, Finance.

Pete Sorsby
Investment Director, NPIF – Debt Finance.

Living our values

Growth focused:

We seek to optimise performance at an individual, team, Group and investee level.

Responsive:

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

Knowledgeable:

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

Trusted:

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

Being responsive: #wfh

Mercia's value of responsiveness is in no better way exemplified than in the context of COVID-19 and the working from home initiative more fondly known within Mercia as #wfh.

The smooth transition of over 90 colleagues from an office-based working environment to dining room tables, bedrooms, sunrooms and home offices was not just testament to our contingency planning and long-term use of tools such as Slack and Zoom, but equally, the assuredness of every member that all the necessary adjustments required to work tirelessly to support our portfolio companies and protect long-term value for our investors could be navigated with ease. All aspects of the unfolding effects and impact of the pandemic were monitored and reported on by the COVID-19 working group that met three times a week.

The Slack channel #wfh became the focal point for colleagues to offer each other moral support using humour, challenges and more informal communications to sustain the commitment and resilience of the team. This was underpinned by the various touchpoints both online and offline that sought to reassure and offer peace of mind to colleagues. Zoom has been pivotal as a platform for morning 'huddles', weekly company-wide meetings that saw nearly 80 colleagues in a mosaic of videos listening and sharing both professional and personal updates, weekly family and friends quizzes as well as a virtual 'pub' on a Friday evening. A series of home-delivered gifts reminded everyone how important they are and how much Mercia appreciates both them and their families.

Training hours

1,929

Mercia Knowledge

Driving continual improvement, cost savings and efficiencies are central to Mercia's digital transformation that also translates across enhanced data capture, curation and analytics. This entire remit falls to Mercia's Knowledge team which, like O2, is a working group that has representatives from all Mercia's offices and functions across the UK to ensure that a 'whole Mercia' approach is adopted. A range of successful initiatives has been undertaken including Mercia's systems, migration to the Cloud, customer relationship management and asset management system development that is bespoke to Mercia and which provides improved data management and reporting, the recruitment of a full-time data scientist, adoption of digital marketing and sales software and, critically, the integration of the VCT investment team, post acquisition.

Responsible investment through environmental, social and governance awareness

Mercia has a long history of making a positive impact in the regions that is as much a representation of our core corporate values as it is a financial return motivation. We are committed to evolving our Responsible Investment agenda, guided by the UN's Principles for Responsible Investment ("PRI"), because we recognise that good environmental, social and governance ("ESG") awareness is associated with better business performance.

Environmental

Protecting the world around us
Comprehensive environmental management is an important item on Mercia's agenda. Mercia considers both the environmental impact of its own activities and those of its investment portfolio.

Our interest in clean technology has led to investments in businesses which address this very topic. Investee companies which exemplify this include Faradion, which is developing a sodium-ion battery technology resulting in cheaper, cleaner energy, and Aceleron, which is developing a lithium battery with a longer lifetime and turning waste battery components into second-hand batteries.

We have undertaken our own digital transformation to improve our efficiencies and lessen our travel, paper consumption and energy costs. Our Mercia Knowledge steers this digital-first agenda to deliver continuous improvements and practices.

Social

Protecting our people
Good social awareness is at the heart of Mercia; it drives our culture and determines both the type of people we recruit and the companies in which we choose to invest. We have a diverse team (40% of the Mercia team is female, nearly 30% making up the investment team).

We are proud of our regional presence with 426 jobs being created in this financial year alone.

We look to the future of the Group through the implementation of our O2 team. This is run by a cohort of employees, thus ensuring that every voice across our organisation is heard and able to drive improvements through the empowerment of teams. Our O2 team acts as a shadow board, challenging ideas and driving innovation.

Governance

Careful control of our assets
As an AIM-listed business, good governance is critical and Mercia has a robust team that enforces every element of this.

We are diligent in both our internal governance and that of our portfolio of investee companies where we take an active role in ensuring each business has good stewardship.

Our core corporate values have provided transparency for investors and includes a non-financial dimension which focuses on long-term growth for our investment practice.

Our pre-investment procedures encapsulate our standpoint around business ethics, incorporating anti-bribery and corruption policies, in which all our employees are trained and monitored. We are also insistent that our equity portfolio companies have similar policies in place around equal opportunities, health and safety, and a range of other regulatory matters.

Q&A

We spoke to Dr Mark Payton (CEO), Julian Viggars (CIO) and Jill Williams (Investment Director) about what being a responsible business really means.

How do you plan to develop your strategy to incorporate environmental, social and governance issues ("ESG") into your investment decisions and portfolio management strategies?

Dr Mark Payton: This will be a journey, with attainment on an increasing basis across the investment cycle, from deal origination and assessment, through ownership and towards realisation.

In the medium term we will increase ESG consideration in our investment analysis and decisions both pre and post investment – this will embed a unified approach and measures across the investment process, through deal sourcing and due diligence, then ownership and exit.

Jill Williams: We have reviewed the UN's PRI which are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. This provides a globally-accepted framework and ESG roadmap; in the longer term, we would like to think that this journey results in us becoming a signatory to the PRI.

What will this entail?

Jill Williams: This coming year we will increase training for the investment team on ESG related risks and opportunities. We will clearly define processes and increase visibility of ESG within the investment decision making process; for example, seeking thoughts on ESG at deal appraisal, including ESG in investment papers and committee discussions, as well as embracing the monitoring and review of ESG, developing key performance indicators and targets. We have started this process by my appointment as ESG project leader, and the training that I've undertaken with the British Private Equity & Venture Capital Association ("BVCA").

How will this translate across your portfolio?

Julian Viggars: This will have to be driven by the portfolio companies' management teams, assisted by Mercia. We will support these teams with the development of ongoing consideration post investment at board level. We would like to see ESG on the board agendas because we know that managing compliance and risk is aligned with managing for value and should therefore lead to strategic advantage. This increased focus will allow both the portfolio and Mercia to create and protect value, ultimately, we believe, generating market-leading returns.

Chief Financial Officer's review

> The Group is now trading profitably as a result of its fund management activities, providing further positive momentum for the Group's future prospects.

A year of considerable positive operational change and progress

Notwithstanding the arrival of COVID-19 and its near-term impact on UK businesses, including many of those companies making up the Group's direct investment portfolio, the year to 31 March 2020 has been one of considerable positive operational change and progress for Mercia Asset Management PLC, not least in its transition from annual net expenses to net revenues one year ahead of plan.

Also notable amongst these positive changes were the successful £30.0million placing and the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM") in December 2019.

Net revenues

£0.1m

2019: £1.4m net expenses

Net assets

£141.5m

2019: £126.1m

Unrestricted cash

£30.2m

2019: £29.8m

Placing of 120,000,000 shares raising £30.0million gross proceeds ('Placing')

On 3 December 2019 Mercia announced a conditional placing of, in aggregate, 120,000,000 Placing shares at 25.0 pence per Placing share. Shareholders overwhelmingly approved the Placing at a General Meeting held on 20 December 2019 and the new shares were admitted to trading on AIM on 23 December 2019. Placing commission and related expenses totalled £1.9million gross.

The net proceeds of the Placing were used to fund the cash component of the initial consideration and related transaction expenses in respect of the acquisition of NVM's VCT fund management business. In addition, the proceeds provide further balance sheet capital to enable the Group to continue to selectively invest in its existing balance sheet direct investments, as well as new direct investments which currently sit within its third-party managed funds, that are expected to deliver attractive returns in the future.

Acquisition of the VCT fund management business of NVM Private Equity LLP

On 23 December 2019 Mercia completed the acquisition of the VCT fund management business of NVM Private Equity LLP, which consisted of the acquisition of three fund management contracts ('the Northern VCT contracts') and the transfer of NVM's VCT investment team, for a total maximum consideration of £25.0million, comprising a combination of cash and new Ordinary Mercia shares. The initial consideration was £16.6million, comprising £12.4million in cash which was satisfied on completion and £4.2million which was satisfied by the issue of 16,800,000 initial consideration shares at a price of 25.0 pence per share, being the same as the Placing price. The initial consideration shares were admitted to trading on AIM on 27 December 2019.

Deferred consideration of up to £8.4million will also be payable, contingent upon certain conditions being met. The deferred consideration comprises £6.3million in cash, payable in three equal instalments on the first, second and third anniversaries of completion, provided that no termination notice has been served by any of the three Northern VCTs before each respective anniversary payment date, and £2.1million payable in new Ordinary Mercia shares. 50% of the deferred consideration shares will be payable if the Group has received at least £16.0million of fees in respect of the VCT fund management contracts during the three years post completion. The remaining 50% of the deferred consideration shares will be allotted and issued if, during the same three-year period, the three Northern VCTs collectively raise at least £60.0million in new capital. If either or both of these conditions are met, the number of new Ordinary shares to be issued to satisfy the deferred share consideration will be calculated based on the average of the daily closing mid-market price for an Ordinary Mercia share, for each of the five days immediately preceding the date of issue.

Summarised consolidated financial statements

The consolidated financial statements for the year ended 31 March 2020 summarised below include just over three months of trading for the acquired business, which has been integrated within Mercia during the first 100 days of ownership.

Summarised consolidated statement of comprehensive income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Revenue	**12,747**	10,675
Other administrative expenses	**(12,661)**	(12,115)
Net revenues/(expenses)	**86**	(1,440)
Fair value movements in investments	**(15,844)**	3,916
Share-based payments charge	**(528)**	(171)
Amortisation of intangible assets	**(852)**	(301)
Operating (loss)/profit before exceptional items	**(17,138)**	2,004
Exceptional items	**(695)**	–
Net finance income	**220**	562
Taxation	**159**	54
(Loss)/profit and total comprehensive (loss)/income for the financial year	**(17,454)**	2,620
Basic and diluted (loss)/earnings per Ordinary share (pence)	**(5.11)**	0.86

Notwithstanding the near-term impact of COVID-19 on direct portfolio fair values, Mercia continues to have strong liquidity, is now operating profitably (before fair value movements, realised gains and all non-cash charges) and has a direct investment portfolio from which to drive future increases in both earnings per share and net asset value per share.

Revenue increased 19.4% to £12.7million (2019: £10.7million). The Group's revenue increase was largely due to the post-acquisition contribution of the acquired VCT fund management business.

Staff and administrative expenses increased by 4.5% to £12.7million (2019: £12.1million). The overall increase in these costs was due to the inclusion of the post-acquisition operating costs of the acquired VCT fund management business.

Net revenues increased by £1.5million compared with 2019 (net expenses) largely, although not exclusively, as a result of the overall post-acquisition contribution of the VCT fund management business.

During the year, the Group invested £17.5million (2019: £19.4million) into 17 existing and one new direct investment (2019: 15 and two respectively). It also received investee company loan repayments totalling £1.8million (2019: £1.7million). Direct investment momentum has been positive at the start of the new financial year and is expected to selectively continue into both existing and new direct investments.

Net fair value decreases during the year totalled £15.8million (2019: £3.9million increase) and as at 31 March 2020 the fair value of the Group's direct investment portfolio was £87.5million (2019: £87.7million). This decrease was predominantly due to the near-term impact of COVID-19 on direct investment portfolio fair values, details of which are given in the Chief Investment Officer's review on pages 24 to 29.

Net assets at the year end were £141.5million (2019: £126.1million) resulting in an overall decrease in net assets per share (being net assets of £141.5million divided by 440,109,707 shares in issue) to 32.1 pence (2019: 41.6 pence, being net assets of £126.1million divided by 303,309,707 shares in issue). This reduction has been due to the dilutive effect of the Placing and the decrease in the fair value of the direct investment portfolio, due predominantly to the impact of COVID-19.

Within net assets, cash and short-term liquidity investments totalled £30.7million (2019: £30.4million), including £0.5million of cash held on behalf of third-party EIS investors (2019: £0.6million).

The net fair value decrease contributed materially to result in an overall consolidated total comprehensive loss for the year of £17.5million (2019: £2.6million profit). This in turn has resulted in a loss per Ordinary share of 5.11 pence (2019: 0.86 pence earnings).

Alternative performance measures

The Group has always believed that the measurement and reporting of both 'net revenues/(expenses)' and 'net asset value per share' are important alternative performance measures of interest to investors. The reporting of net revenues/(expenses) enables a clear understanding of the impact of the Group's operating model on net asset value enhancement or erosion, particularly historically where operating costs have exceeded revenue.

From 1 April 2020 the Group will substitute 'adjusted operating profit' for net revenues/(expenses), as it is a more generally recognised alternative performance measure for specialist asset managers. From Mercia's perspective and for comparison purposes, the difference between the measurement of net revenues/(expenses) and adjusted operating profit is that adjusted operating profit will include net finance income and exclude depreciation. Had Mercia adopted this alternative performance measure for the year ended 31 March 2020 it would have resulted in adjusted operating profit of £0.5million (2019: £0.8million loss). The table below provides a bridge between the two alternative performance measures for the years ended 31 March 2020 and 31 March 2019.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Revenue	**12,747**	10,675
Other administrative expenses	**(12,661)**	(12,115)
Net revenues/(expenses)	**86**	(1,440)
Depreciation	**212**	84
Net finance income	**220**	562
Adjusted operating profit/(loss) before exceptional items	**518**	(794)

The table below provides a reconciliation from adjusted operating profit/(loss) to operating profit/(loss) before exceptional items for the years ended 31 March 2020 and 31 March 2019.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Adjusted operating profit/(loss) before exceptional items	**518**	(794)
Depreciation	**(212)**	(84)
Net finance income	**(220)**	(562)
Fair value movements in investments	**(15,844)**	3,916
Share-based payments charge	**(528)**	(171)
Amortisation of intangible assets	**(852)**	(301)
Operating profit/(loss) before exceptional items	**(17,138)**	2,004

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 £16.6million (2019: £10.3million) and acquired intangible assets of £20.1million (2019: £0.6million). £6.3million of the goodwill and £19.8million of the intangible assets value arose as a result of the Group's acquisition of the VCT fund management business in December 2019. £7.9million (2019: £7.9million) of the goodwill and £0.3million of the intangible assets value arose as a result of the Group's acquisition of Enterprise Ventures Group Limited in March 2016. The balance of the goodwill arose on the acquisition of Mercia Fund Management Limited in December 2014. The intangible assets are separately identifiable assets arising from the VCT fund management contracts with Northern Venture Trust PLC, Northern 2 VCT PLC and Northern 3 VCT PLC (the 'Northern VCT Contracts') and Enterprise Ventures' fund management contracts (the 'EV Contracts'). The fair value of the Northern VCT Contracts' intangible assets is being amortised on a straight-line basis over 10 years. The fair value of the EV Contracts are being amortised on a straight-line basis over the average duration of the remaining fund management contracts from the date of acquisition. The total amortisation charge of £852,000 (2019: £301,000) in the consolidated statement of comprehensive income represents the amortisation for the year ended 31 March 2020. £551,000 of the total charge relates to the Northern VCT Contracts with the balance relating to the EV Contracts.

Revenue

Total revenue of £12,747,000 (2019: £10,675,000) 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 £12,661,000 (2019: £12,115,000) consisted of all staff related, office, marketing and professional adviser costs.

Net revenues

Net revenues of £86,000 (2019: £1,440,000 net expenses) represents total revenue less all staff and administrative expenses.

Fair value movements in investments

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Investment movements excluding cash invested:		
Unrealised gains on the revaluation of investments	**3,351**	8,622
Unrealised losses on the revaluation of investments	**(19,195)**	(4,706)
Net fair value (loss)/gain	**(15,844)**	3,916

For the year as a whole, unrealised fair value gains arose in four (2019: 12) of the Group's 25 (2019: 26) direct investments. The largest fair value gain, being Oxford Genetics (trading as OXGENE), was £1,582,000. There were 10 (2019: three) fair value decreases, the largest being £5,313,000 for Warwick Acoustics, predominantly due to the current impact of COVID-19 on asset values in general. The reduction in overall fair values for the year as a whole was 15.3%, measured by expressing the net fair value unrealised loss as a percentage of the opening fair value of the direct investment portfolio plus the net cash invested during the year (2019: 4.7% increase). For the vast majority of the direct investment portfolio we anticipate a recovery in fair values over time.

Share-based payments charge

The £528,000 (2019: £171,000) non-cash charge arises from the issue of share options to Executive Directors and other employees of the Group ranging from 24 April 2017 to 31 March 2020.

Amortisation of intangible assets

The amortisation charge of £852,000 (2019: £301,000) represents the amortisation of the acquired intangible assets of the Northern VCT Contracts and the EV Contracts for the year ended 31 March 2020.

Exceptional items

During the year the Group incurred exceptional costs of £695,000 (2019: £nil). Of this total, £297,000 are transaction costs incurred in relation to the acquisition of the VCT fund management business. The balance of £398,000 are staff related costs incurred in connection with a restructuring which took place in March 2020. The transaction costs and staff related costs are exceptional non-trading and non-recurring costs and have therefore been accounted for as exceptional items.

Net finance income

Finance income of £246,000 (2019: £562,000) 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.

Finance costs of £26,000 (2019: £nil) comprised interest payable on leases, arising from the application of IFRS 16, 'Leases'.

Taxation

The tax credit of £159,000 (2019: £54,000) represents the annual unwinding of the deferred tax liability recognised in respect of the intangible assets which arose on the acquisition of both the Northern VCT Contracts and the EV Contracts.

Balance sheet and cash flows

Net assets at the year end of £141,460,000 (2019: £126,065,000) 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

At the latter end of the year Mercia's direct investment portfolio declined in fair value to £87,471,000 (2019: £87,659,000). The table below lists the Group's investments by value as at 31 March 2020, including a breakdown of the net cash invested during the year, fair value movements for the year as a whole and the fully diluted equity percentage of each investee company owned.

	Investment value As at 1 April 2019 £'000	Net cash invested Year to 31 March 2020 £'000	Fair value movement Year to 31 March 2020 £'000	Investment value As at 31 March 2020 £'000	Percentage held As at 31 March 2020 %
nDreams Ltd	15,120	1,000	–	16,120	36.4
Oxford Genetics Ltd t/a OXGENE	10,161	–	1,582	11,743	30.2
Intechnica Ltd	6,677	500	–	7,177	27.5
Medherant Ltd	5,205	1,500	–	6,705	30.1
Voxpopme Ltd	3,026	2,000	1,004	6,030	17.1
Ton UK Ltd t/a Intelligent Positioning	5,473	400	1,519	4,354	28.2
Impression Technologies Ltd	5,381	2,000	(3,087)	4,294	25.9
Faradion Ltd	3,525	500	–	4,025	16.5
Warwick Acoustics Ltd	7,904	1,065	(5,313)	3,656	52.9
The Native Antigen Company Ltd	2,863	–	630	3,493	29.4
Soccer Manager Ltd	2,099	300	135	2,534	34.8
Edge Case Games Ltd	2,300	–	–	2,300	21.2
Locate Bio Ltd	500	1,750	–	2,250	17.4
VirtTrade Ltd t/a Avid Games	3,938	550	(2,288)	2,200	25.8
PsiOxus Therapeutics Ltd	2,377	160	(344)	2,193	1.4
sureCore Ltd	1,834	333	–	2,167	22.0
W2 Global Data Solutions Ltd	2,000	–	–	2,000	15.2
Eyoto Group Ltd	1,755	875	(878)	1,752	15.7
One Touch Apps Ltd t/a Clear Review	–	500	–	500	3.9
Concepta PLC	1,133	750	(1,408)	475	22.4
Other direct investments	4,388	1,473	(4,358)	1,503	n/a
Total	**87,659**	**15,656**	**15,844**	**87,471**	**n/a**

Investee company loan repayments

Mercia is focused on creating shareholder value through its asset management operations, including investment in, development of and at the appropriate time, exit from (predominantly through trade sales) its direct investments. The Group supports its direct investments via both equity and loan instruments. During the year loan repayments of £1.8million (2019: £1.7million) were received by Mercia from Impression Technologies, Warwick Acoustics and Crowd Reactive.

Cash and short-term liquidity investments

At the year end Mercia had total cash and short-term liquidity investments of £30,653,000 (2019: £30,398,000) comprising cash of £24,438,000 (2019: £25,210,000) and short-term liquidity investments of £6,215,000 (2019: £5,188,000), including £467,000 (2019: £629,000) 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 four leading United Kingdom banks.

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Opening cash and short-term liquidity investments	**30,398**	52,908
Net cash generated from/(used in) operating activities	**136**	(5,080)
Net cash used in direct and certain other investing activities	**(15,456)**	(17,234)
Purchase of management contracts	**(12,400)**	–
Issue of new Ordinary share capital for cash	**30,000**	–
Ordinary share capital issue costs	**(1,879)**	–
Net cash used in other financing activities	**(146)**	(196)
Cash and short-term liquidity investments at the year end	**30,653**	30,398

Notwithstanding the near-term impact of COVID-19 on asset values and revenues which are directly linked to asset values, Mercia has made significant positive progress during the year. Once the impact of the pandemic subsides, the underlying potential of the Group's balance sheet portfolio and deal flow pipeline via its managed funds will re-emerge, providing positive momentum for the Group's future prospects.

Martin Glanfield
Chief Financial Officer

Principal risks and uncertainties

Risk management framework

The Board considers that the risks detailed in this Annual Report 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 mitigating actions. An assessment of the strength of mitigating controls determines the net risk score and any further actions required.

The Group considers identified risks under three main categories with sub-categories as appropriate:

Internal – including the Group's strategy and business planning.

External – including competitor risk, regulatory and legal risk, and force majeure eg pandemic risk from COVID-19.

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

The Board monitors, evaluates and mitigates risks to ensure that appropriate measures are in place to minimise the likely occurrence and impact of those risks identified.

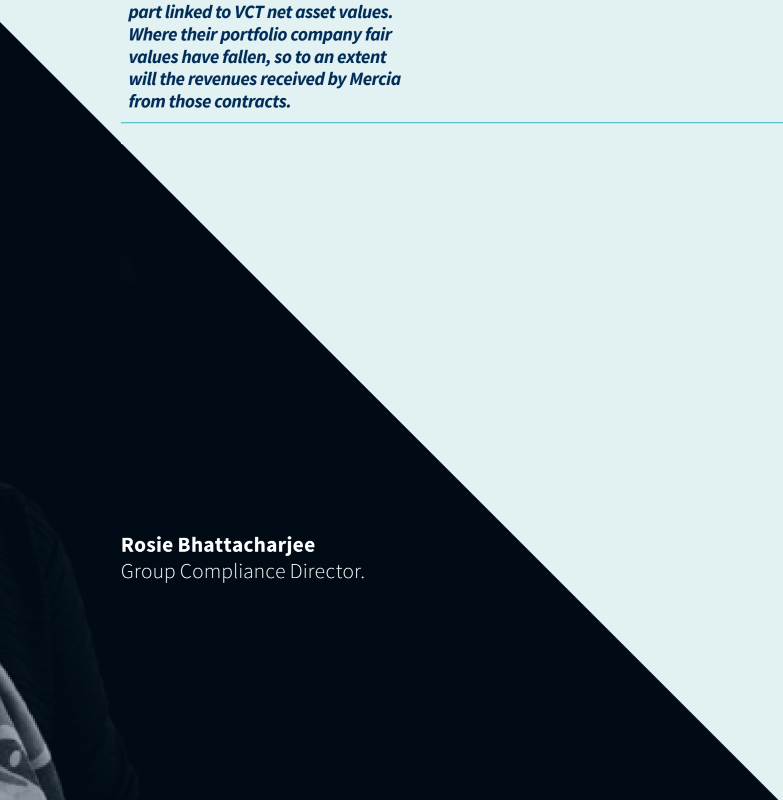
There may be additional risks and uncertainties that are not known to the Board and there are risks and uncertainties which are currently deemed to be less material, which may also adversely impact performance and thus are monitored within the Group's risk management framework. The framework provides reasonable, but not absolute, assurance that principal risks are managed to an acceptable level, whilst also acknowledging the fact that the specialist asset management sectors in which Mercia operates have investment risk inherent within them. 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 risk management framework with a specific focus on risks and opportunities associated with the Group's successful acquisition of the VCT fund management business of NVM Private Equity LLP. More latterly, focus has been on the range of significant risks associated with COVID-19. The pandemic and its effects will potentially impact all risks and, where appropriate, we have noted below the impacts that we believe are potentially the most severe.

We have continued our focus on regulatory compliance and implementation of the Senior Managers and Certification Regime ("SMCR"). Focus has also been maintained on cybersecurity, effective talent management and internal audits on investment activity. The Board has also considered the possible effects, on the Group and on its investee companies, of the United Kingdom's exit from the European Union without a trade deal in place. The risk management framework has been further strengthened through the Senior Management Team escalating new, emerging or increased risk exposure to the Executive Team, together with the Group's Compliance Director communicating directly with the Audit and Risk Committee and ultimately, the Board.

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

Risk	Possible consequences	Mitigation
The risk of the COVID-19 pandemic affecting staff, operational services to portfolio companies and business development. **Market falls and risks to portfolio companies affect valuations and net asset values which impacts asset price related fund management revenues. Impact on portfolio companies individually, leading to failures and loss of revenues as a consequence.**	Staff welfare issues, due to direct illness, family illness and/or bereavement, potential stresses due to isolation. Impact on the operational efficiency of the Group. Risk to the valuation of funds and VCT portfolios managed by Mercia regulated entities, as well as general market falls impact on direct investment fair values. Increased risk of portfolio valuation reductions and/or failures and consequent reduction in revenues from fund management contracts and portfolio companies. Opportunity loss where remote working reduces the ability to source and assess new opportunities for investment.	Mercia tested its remote working capability for all staff under its business continuity policy and procedures ahead of the formal lockdown and has been able to move seamlessly to working from home. Staff welfare is kept high on the agenda of the Executive Team and morale is being maintained through the use of Zoom and Slack for meetings, social interaction and supporting information sharing. Mental wellbeing amongst staff is also being monitored and tools such as Headspace, the meditation app, have been offered to all staff. A COVID-19 working group was formed, which initially met daily before moving to weekly, to maintain an appropriate consensus of necessary actions. Portfolio valuations have been reviewed and fair values amended where required. Mercia has organised briefings and webinars to assist portfolio companies and has made use of existing forums, such as the Mercia Slack channel, exclusively for portfolio company CEOs. We have drawn on our networks and worked across funds, using technology to facilitate meetings in order to maintain deal flow. Mercia's budget for the year ending 31 March 2021 has been reviewed in light of the changing conditions and the revised budget has been approved by the Board. Mercia will be carefully considering the Government strategy for easing the lockdown to identify the appropriate path to returning to office working and business travel as and when appropriate and safe to do so.
The acquisition and integration of the VCT fund management business of NVM Private Equity LLP may not turn out to be successful and may not deliver enhanced shareholder value over the medium term. **Successful delivery and transfer, over the transition period, of VCT governance and support services including the key processes to ensure continuity of VCT eligibility.** **Retention of the fund management contracts for the VCTs.** ***In the near term, the economic consequences of COVID-19 are negatively impacting asset prices. Revenues derived from the three VCT fund management contracts are in part linked to VCT net asset values. Where their portfolio company fair values have fallen, so to an extent will the revenues received by Mercia from those contracts.***	Potential failure to undertake appropriate due diligence; failure to identify and maximise the value drivers for the transaction including the synergies between the teams and portfolios; inability to raise future VCT funds; failure to identify the key functions required to be covered under the transitional services agreement ("TSA"). Residual risks and potential consequences, post-acquisition, included the failure to appropriately manage the TSA and ensure continuity and standard of services delivered to the three VCTs; the risks of not managing a successful integration of the VCT team members into Mercia; and building a strong and successful relationship with the VCT boards and indirectly with their investors.	The risks and consequences of failure to integrate the VCT business were carefully considered through detailed due diligence and detailed integration planning before the acquisition, with involvement of a team of senior staff and external advisers. The TSA between Mercia and NVM, in place until 30 September 2021, reduces the risks associated with the handover of key processes. Mercia completed its 100-day plan in the period immediately after acquisition and will be creating a 365-day transition plan for the final year of the TSA. Post acquisition integration has focused on: • people and culture: internal communications, training and social events (prior to lockdown); • integration of key staff into management structures; • investment processes and protocols; • oversight and monitoring of the services provided by NVM to Mercia under the TSA; • Board and Executive level engagement between Mercia and the VCT boards; and • new co-investment agreement.



Rosie Bhattacharjee
Group Compliance Director.

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
The Group now has c.£658million of funds under management and derives the majority of its revenues under fund management contracts linked to each specific fund.	The loss of one or more of the contracts due to poor performance or other irreconcilable LP/GP differences could have a material impact on the trading performance of the Group and reputationally, its future ability to successfully tender for new contracts.	Dedicated investment teams operate in respect of each asset class and in many cases, each fund mandate. Senior managers oversee both fund performance and client relationships. Detailed quarterly reports are issued for most funds. Investment committees provide robust review of all proposed investments. The Group's compliance function monitors adherence to investment procedures. The Board oversees the Group's fund management operations, performance and client relations.
The majority of the direct investment portfolio comprises businesses at a relatively early stage in their development and as a result carry inherent risks, including technical and commercial risks. Typically such companies are developing new or disrupting existing technologies and breaking new ground commercially. ***Portfolio companies' risks have been affected both positively and negatively by the COVID-19 pandemic, with some companies actively engaged in the development of testing solutions.***	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; 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 operations. The funds have a fail fast policy, which means that early-stage businesses which do not achieve commercial traction within a reasonable time frame are not further supported. In addition, 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. This process of review reduces, although does not eliminate, the risk of direct investment failure, particularly in the current pandemic-induced economic climate. For all of Mercia's direct investment portfolio companies, the Group continues to assess their near-term funding and other requirements and will continue to provide relevant support where needed and appropriate.
The value of the Group's direct investment portfolio may be dominated by a single or limited number of companies. ***Portfolio company fair values have been affected both positively and negatively by the COVID-19 pandemic, with some companies actively engaged in the development of testing solutions, whilst others have seen their end-user markets significantly curtailed in the near to medium term.***	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 (including the current pandemic) and if, as a result, their values were to be adversely affected, this would have a materially detrimental effect on the overall value of the Group's investment portfolio and skew fair value concentration into a smaller number of companies. Currently, the top five direct investments represent 54.6% of the total portfolio by value.	The Group seeks to balance the total portfolio by quantum and value, as the total number of direct investments and their values grow over time. The current portfolio continues to be well balanced. However, it is the Group's expectation that from time to time, depending on economic conditions, the speed of development of portfolio companies and the attractiveness of certain technology sectors, there may be investments, and therefore specific sectors, eg Life Sciences & Biosciences, that dominate the total portfolio by value. The specific direct investment 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. Details of the mitigating actions taken by the Group in respect of the impact of the COVID-19 pandemic on its portfolio companies are included in the Chief Investment Officer's review on pages 24 to 29.
Proceeds from the trade sale or IPO of direct investments may vary substantially from year to year. **As a result, 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.**	Large possible cash flow variations could have a materially adverse effect on the financial condition and prospects of the Group. A shortage of available capital for direct investment and operating purposes would necessitate a change in strategy to one of capital conservation.	Mercia raised further funds, partly for direct investment, in December 2019 and is well capitalised. A number of Mercia's direct investments could be sold to maintain sufficient liquidity. The Group is also now profitable in its day-to-day operating activities and is generating operating cash inflow. It is therefore no longer having to make use of its cash balances to fund its day-to-day operating activities.
The Group and its portfolio companies are subject to competition risk.	The Group operates a direct investment model and may find itself in competition when new investment opportunities arise. In addition, the direct investment portfolio businesses are predominantly focused on the technology sector, which 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 #OneMercia, 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 use of Goalspan, an online performance management and personal development system, has enhanced Mercia's ability to manage performance and career progression.

Risk	Possible consequences	Mitigation
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, they would no longer be authorised to act as the investment manager of the respective funds or VCTs 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 seeks to comply 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 experienced and FCA-approved personnel. Mercia applies policies and procedures in compliance with FCA requirements across its regulated subsidiaries. It has implemented the initial stages of the SMCR, ensuring that its senior staff are appropriately mapped to the new regime and that all staff understand their obligations to act with integrity. Mercia also has a whistle-blowing policy and reporting structure in place. No whistle-blowing reports have been made in the year.
The United Kingdom's exit from the European Union ('Brexit') may impact upon both the Group and its portfolio companies, especially if no trade deal is successfully negotiated.	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.	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 that do not have large capital needs. The Group therefore has sufficient funds under management and balance sheet capital to exercise investment and operational flexibility. Only once the final outcome of the Brexit trade negotiations are known will the future employment and potential tariffs landscape become clearer. In the meantime, the Group continues to monitor United Kingdom Government announcements and will take relevant actions to respond to developments as appropriate and relevant.
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. ***The incidence of cyber crime attempts and reports from portfolio companies has increased in the wake of COVID-19.***	Such security or infrastructure failures may result in the loss of data, misuse of sensitive information, reputational damage and legal or regulatory breaches. Attacks on portfolio companies could in addition result in the loss of valuable intellectual property or be disruptive to business activities.	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. The Group has implemented Office 365 this year to further enhance its ability to securely store and share documents. Business continuity plans and disaster recovery contingencies are tested regularly and have proved to be effective to support remote working during the COVID-19 related lockdown. The Group continues to engage frequently 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 tax relief could impact on Mercia's ability to raise adequate funds to support all suitable investment opportunities. **Any changes to VCT related tax reliefs could also impact the VCT portfolio's access to future funding.**	Although the Directors do not believe that such investors choose investment via SEIS, EIS or VCT 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 funds and VCTs 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 and VCT investors and would therefore be well placed to continue operating in any changed environment.

Events after the balance sheet date

Other than the sale of The Native Antigen Company for up to £5.2million and the continuing completion of approved direct investments, 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
13 July 2020

Right skills, right experience, right people

Dr Mark Payton Chief Executive Officer

Date of appointment: December 2014

Experience: Mark has extensive private investment and scale-up experience. Since co-founding Mercia he has led the sales 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 (sold to ARM). 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 (sold to Millipore), Oxford Immunotec (listed on NASDAQ), Oxitec (sold to Intrexon) and Natural Motion (sold to Zynga).

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).

External appointments: None

Martin Glanfield Chief Financial Officer

Date of appointment: December 2014

Experience: Martin has significant public markets and business experience. He 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 the main market listed 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 main market 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 the private equity business 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.

External appointments: None

Julian Viggars Chief Investment Officer

Date of appointment: April 2018

Experience: 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. Through the subsequent sell down of its holding in Blue Prism, Mercia's RisingStars Growth Fund realised c£95m, 105x the cost of its investment. Julian leads the equity investment team as well as managing the pipeline of Mercia's direct investments.

Alongside his wide experience of investing across many sectors, 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 has been Mercia's Chief Investment Officer since April 2018. Julian has a geology with chemistry degree from the University of Southampton and qualified as a chartered accountant with accountants Smith & Williamson.

External appointments: None

Ian Metcalfe Non-executive Chair

Date of appointment: December 2014

Experience: 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, a director of the Board of the Organising Committee of the Birmingham 2022 Commonwealth Games and the Host City representative on the Commonwealth Games Federation Executive Board.

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. 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.

Ian has over 25 years' experience advising businesses of all types and sizes on their growth activities, as well as deep corporate governance experience, both as a legal adviser to listed businesses and as a current and previous non-executive board member of leading sports and other multinational organisations.

Ray Chamberlain Non-executive Director

Date of appointment: December 2014

Experience: 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.

Ray has deep venture experience across several decades and sectors, as both a founder of and investor in many start-up businesses which have resulted in successful cash exits.

Dr Jonathan Pell Non-executive Director

Date of appointment: December 2017

Experience: 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.

Jonathan has considerable venture and private equity investing experience, both as a CFO and CEO of private equity-backed businesses that have successfully exited, and also as the founder of a technology focused venture angel investor group.

Caroline Plumb OBE Non-executive Director

Date of appointment: June 2018

Experience: 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.

Caroline is a serial start-up entrepreneur and is highly effective in bringing her current venture capital investee insights to Mercia's Board and Strategy meetings.

Directors' report

The Directors present their Annual Report and the audited financial statements of Mercia Asset Management PLC for the year ended 31 March 2020.

Results and dividends

The loss for the year was £17,454,000 (2019: £2,620,000 profit). The Directors do not recommend the payment of a dividend (2019: £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 55 which forms part of this report by cross-reference. On 1 July 2020 the Board was pleased to promote Mercia's in-house Head of Legal, Sarah-Louise Thawley LLB (Hons), as Group General Counsel and Company Secretary.

Directors

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

Ian Roland Metcalfe (appointed Non-executive Chair on 2 July 2019)
Dr Mark Andrew Payton
Martin James Glanfield
Julian George Viggars
Raymond Kenneth Chamberlain
Dr Jonathan David Pell
Caroline Bayantai Plumb OBE
Susan Jane Searle (resigned on 2 July 2019)

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 68.

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 29 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2020, 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 Limited	63,113,333	14.3
Forward Innovation Fund[1]	38,072,336	8.7
Librae Holdings Limited	28,208,528	6.4
Ruffer LLP	24,413,000	5.6
Forward Nominees Limited[1]	22,631,208	5.1
The Hargreaves No 11 Settlement	14,000,000	3.2
NFU Mutual Insurance Society	13,341,465	3.0

1 Shareholdings connected to Ray Chamberlain.

Political donations

During the year ended 31 March 2020 the Group made no political donations (2019: £nil).

Employees

The Group employed an average of 91 (2019: 85) 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 People, Culture and Values review beginning on page 40, 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:

Sarah-Louise Thawley
Company Secretary
13 July 2020

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 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 key 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 of the Group and the Company and loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company 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 Company's and the Group's position and the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 13 July 2020 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 ('Mercia', the 'Company' or the 'Group'). Working with the Chief Financial Officer and 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. It formally adopted the QCA Code on 21 September 2018, following the introduction in March 2018 of the London Stock Exchange's new requirement for companies admitted to trading on AIM to adopt and comply with a recognised corporate governance code by 28 September 2018.

The QCA Code 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 is reviewed annually and the date of each review is noted on our website.

Our primary means of communicating our corporate governance structure is through our Annual Report and our website disclosures. When on occasion 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 strategic 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 in which 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. Mercia's people and talent management 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 (more recently via Zoom), 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. 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 Board considers that it contains a range of skills, knowledge, experience and backgrounds that are 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 Chief Financial Officer also served as Company Secretary throughout the year, and up until 1 July 2020, on which date

Sarah-Louise Thawley LLB (Hons) was promoted to the role of Group General Counsel and Company Secretary. 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, the Board intends to appoint an additional Non-executive Director with a relevant asset management background in the near term, and furthering Board diversity also remains important to Mercia.

Brief biographies of the Directors and their relevant experience are set out on pages 56 to 57. Their membership of committees is set out on pages 61 to 62.

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 14.7% 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 committees.

Board effectiveness

In April 2019 a board effectiveness review was undertaken. Belinda Hudson Limited ("BHL"), experts in enhancing board effectiveness, were 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.

Since the review, tangible progress has been made in respect of each of the above recommendations.

Board meetings

The Board now 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 typically holds two dedicated meetings each year to review strategy.

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 2020 nine Board meetings occurred. Details of attendance at the scheduled Board and committee meetings during the year is as follows:

Director	Board	Audit and Risk	Remuneration	Nominations
Ian Metcalfe	9/9	2/3[2]	5/5	1/1
Dr Mark Payton	9/9	1/3[1]	5/5[1]	1/1[1]
Martin Glanfield	9/9	3/3[1]	5/5[1]	1/1[1]
Julian Viggars	9/9	1/3[1]	–	–
Ray Chamberlain	8/9	–	–	–
Dr Jonathan Pell	9/9	2/3	4/5[2]	1/1
Caroline Plumb OBE	9/9	3/3	5/5	–
Susan Searle[3]	3/9	1/3	1/5	1/1

1 Attended by invitation.
2 The composition of the Committee changed during the year, as outlined below.
3 Susan Searle resigned on 2 July 2019.

Board committees

The Board delegates specific duties and responsibilities to certain committees and has established a Nominations Committee, an Audit and Risk Committee and a Remuneration Committee, as described more fully below, except in respect of the Remuneration Committee, whose report is set out on pages 65 to 68 of this Annual Report. The Company Secretary attends all Committee meetings. Subsequent to Susan Searle's resignation on 2 July 2019, Ian Metcalfe became Chair of the Nominations Committee and rejoined the Audit and Risk 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 Ian Metcalfe and Dr Jonathan Pell until 2 July 2019, after which date Ian Metcalfe became Chair and the other Committee members were Dr Jonathan Pell and Caroline Plumb OBE. The Nominations Committee met once formally during the year and also met informally at other times. The formal meeting was fully attended.

Audit and Risk Committee

The Audit and Risk 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, agreeing audit fees and reviewing the audit findings). The Committee also reviews the provision of any non-audit services by the external statutory auditor.

The Committee will monitor the need for a dedicated internal audit function, focusing on financial controls. An internal audit function already exists in respect of investment related compliance matters, under the independent leadership and direction of the Group's Compliance Director. The Compliance Director reports directly to the Committee on all findings.

During the year the Committee comprised Dr Jonathan Pell as Chair, Susan Searle and Caroline Plumb OBE up until 2 July 2019, after which date Dr Jonathan Pell remained as Chair and the other Committee members were Caroline Plumb OBE and Ian Metcalfe. Executive Directors attend by invitation. The Committee met three times during the year under review at appropriate times in the financial reporting and audit cycle. It may also meet at other times if so required. It has unrestricted access to the Group's external auditor.

The QCA Corporate Governance Code

From the date of our Admission to trading on AIM in December 2014, we have embedded robust corporate governance as part of our culture. 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 55 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 meets with existing shareholders from time to time as do the Executive Directors. 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.	Pages 39 and 60 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 Responsible Business section of this Annual Report and how seriously the Group takes its environmental, social and governance responsibilities.	Pages 44 to 45 of this Annual Report and the AIM Rule 26 section of the Group's website

	Governance principles	Compliant	Explanation	Further reading
	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 – for risk tolerance (focusing on Mercia-specific internal, external and strategic risks) and risk appetite (specifically in terms of the Group's investing policy).	Pages 52 to 55 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 Risk 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 60 to 62 of this Annual Report and the AIM Rule 26 section of the Group's website
	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". They 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 (eg by the Board in April 2019). 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 56 to 57 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 April 2019 and the actions taken in response to the recommendations arising from this review are set out in this Annual Report.	Page 61 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 People, Culture and Values 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 2019/20 and 2020/21 include Mercia's cultural values.	Pages 40 to 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 key areas of management and governance of the Group. This Annual Report details the composition and terms of reference of the Board and its Committees. These are also included within the Investor Relations section of its website.	Pages 60 to 62 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 39 and 60 to 62 of this Annual Report and the AIM Rule 26 section of the Group's website

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 and FCA related 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 2020.

Ian R Metcalfe
Non-executive Chair
13 July 2020

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. Within the terms of the agreed framework, it is also responsible for 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 2020 the Remuneration Committee comprised Ian Metcalfe as Chair, Susan Searle and Caroline Plumb OBE until 2 July 2019. From that date the Committee comprised Ian Metcalfe as Chair, Caroline Plumb OBE and Dr Jonathan Pell. The Remuneration Committee meets at least twice a year and otherwise as required. During the year the Committee met formally five times, 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 stage in its development, there has remained a 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 and remain relevant today, 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 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 unlisted) 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 soundings from both the Group's Nominated Adviser and remuneration specialists, the Committee 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 2019/20, 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 2019/20 award were:

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

Notwithstanding actual performance against these targets, the Executive Directors voluntarily offered to cap their bonus scheme for 2019/20 at 50% of salary, recognising the near-term challenges posed by COVID-19. This gesture was welcomed by the Committee.

Having considered the performance of the Group and the Executive Directors against each of these criteria, as well as the self-imposed bonus cap, the Committee awarded bonuses to each Executive Director of 33% of their base salary for 2019/20.

The Committee has currently agreed to a maximum bonus of 100% of base salary for exceptional performance for 2020/21, 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 2020/21 award are:

1. Total shareholder return – 45% weighting
2. Funds under management performance – 30% weighting
3. Environmental, social and governance progress, high performing teams and Mercia core values – 25% weighting

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:

	Date of appointment	Annual salary £'000	Notice period
Dr Mark Payton	15 December 2014	235	6 months
Martin Glanfield	15 December 2014	200	6 months
Julian Viggars	17 April 2018	200	6 months
Ian Metcalfe	15 December 2014	75	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

All Directors have voluntarily agreed to no base salary increase for 2020/21, as part of the Group's cost containment actions, during the period when COVID-19 is impacting the Group's performance. Ian Metcalfe's annual salary increased to £75,000 per annum with effect from 2 July 2019, to compensate him for his new role as Chair of the Group.

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 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.

All awards are subject to a performance condition. The performance condition requires 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. Where the performance condition has not been achieved on the third anniversary, those options lapse.

In the year to 31 March 2020 options were granted to the Executive Directors and a number of staff. The total number of options in issue at the year end was 15,700,140 (2019: 13,413,000).

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	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Executive Directors										
Dr Mark Payton	**235**	235	**26**	26	**2**	2	**78**	108	**341**	371
Martin Glanfield	**200**	200	**22**	22	**3**	4	**66**	92	**291**	318
Julian Viggars[1]	**200**	192	**22**	21	**2**	2	**66**	86	**290**	301
Matthew Mead[2]	**–**	9	**–**	–	**–**	–	**–**	–	**–**	9
Non-executive Directors										
Ian Metcalfe[3]	**68**	46	**–**	–	**–**	–	**–**	–	**68**	46
Ray Chamberlain	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Dr Jonathan Pell	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Caroline Plumb OBE[4]	**40**	32	**–**	–	**–**	–	**–**	–	**40**	32
Susan Searle[5]	**38**	75	**–**	–	**–**	–	**–**	–	**38**	75
	861	869	**70**	69	**7**	8	**210**	286	**1,148**	1,232

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 Ian Metcalfe was appointed Chair on 2 July 2019.
4 Caroline Plumb OBE was appointed on 12 June 2018.
5 Susan Searle resigned on 2 July 2019.

Share options (audited)

The number of options over Mercia Asset Management's Ordinary shares held by Directors as at 31 March 2020 is set out below:

	Number of options				
	As at 31 March 2020	As at 31 March 2019	Date of grant	Exercise price	Period of exercise
Executive Directors					
Dr Mark Payton	–	1,000,000	8 Dec 2014	50.00p	18 Dec 2019 to 7 Dec 2024[1]
	–	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	400,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[4]
	946,502	–	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[5]
Martin Glanfield	–	1,000,000	8 Dec 2014	50.00p	18 Dec 2019 to 7 Dec 2024[1]
	–	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	400,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[4]
	823,045	–	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[5]
Julian Viggars	–	300,000	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[2]
	100,000	100,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[3]
	1,200,000	1,200,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[4]
	823,045	–	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[5]

1 The options, exercisable as to one-third from 18 December 2019, one-third from 18 December 2020 and the remaining one-third from 18 December 2021, lapsed during the year ended 31 March 2020.
2 The options, exercisable as to one-third from 27 July 2019, one-third from 27 July 2020 and the remaining one-third from 27 July 2021, lapsed during the year ended 31 March 2020.
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, if the performance condition has been met.
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, if the performance condition has been met.
5 The options will be exercisable as to one-third from 28 January 2023, one third from 28 January 2024 and the remaining one third from 28 January 2025, if the performance condition has been met.

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 2020	Number of Ordinary shares as at 31 March 2019
Ian Metcalfe[1]	**192,609**	132,609
Dr Mark Payton[1]	**6,799,653**	6,655,472
Martin Glanfield[1]	**716,972**	293,369
Julian Viggars[1]	**582,325**	424,325
Ray Chamberlain[1 2]	**64,824,766**	60,824,766
Dr Jonathan Pell	**–**	–
Caroline Plumb OBE[1]	**40,000**	–
Susan Searle[3]	**–**	1,097,388

1 In December 2019 Ian Metcalfe, Dr Mark Payton, Martin Glanfield, Julian Viggars, Ray Chamberlain and Caroline Plumb OBE each increased their shareholding in Mercia Asset Management PLC by purchasing 60,000 shares, 100,000 shares, 200,000 shares, 100,000 shares, 4,000,000 shares and 40,000 shares respectively.
2 Ray Chamberlain is indirectly interested in 64,824,766 Ordinary shares via the Forward Innovation Fund (38,072,336 Ordinary shares), Croftdawn Limited (3,994,786 Ordinary shares), Mercia Growth Nominees Limited (126,436 Ordinary shares) and Forward Nominees Limited (22,631,208 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
13 July 2020

Independent auditor's report to the members of Mercia Asset Management PLC

Report on the audit of the financial statements

1. 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 2020 and of the Group's loss 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 and parent Company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 49.

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).

2. 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Valuation of investments* • *Acquisition of VCT fund management contracts* Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £2.7million which was determined on the basis of 2.5% of the Group's net assets less cash and cash equivalents and short-term liquidity investments.
Scoping	99% of the Group revenue and loss after taxation and 99% of net assets was audited to full scope audit.
Significant changes in our approach	Other than the new key audit matter identified in relation to the business combination which took place in the period, there were no significant changes to the prior year audit approach. However, we have considered the impact of COVID-19 within our key audit matter in respect of the fair value of investments and in our going concern assessment.

4. 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.

5. 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.

5.1 Valuation of investments

Key audit matter description	As disclosed by the Directors as a critical accounting judgement in note 2 on page 85 of the Annual Report, the judgement required to determine the appropriate valuation methodology of investments is significant. As detailed in note 2, there is increased estimation uncertainty determining the valuation of investments at 31 March 2020 due to the unprecedented impact of COVID-19. The Directors have assessed the impact on the markets in which each of the direct investments operate, as well as assessing the trading performance of each investment and their respective liquidity needs in determining the fair value of investments. The uncertainty of the duration of restrictions on operational activity, and the pace and extent of recovery gives rise to this increased estimation uncertainty. As disclosed in note 18, the Group has investments with a net carrying value of £87.5million (2019: £87.7million). The majority of these investments have no quoted market price available. Based on the nature of the Group's investments in early-stage companies, there are often no current or short-term future earnings or positive cash flows. Therefore, it can be difficult to evaluate the probability of success or failure of commercial development or research activities that support the business models. As a result, each non-listed investment is initially carried at cost, with adjustments subsequently made to reflect changes in fair value, typically with reference to the price at which third-party transactions in the equity of that portfolio company have taken place and the Directors' review of the fair value of each 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 reviewed the valuation methodology used by the Directors to assess whether it is compliant with IFRS 13 and the 2018 IPEVC valuation guidelines; • we obtained the Directors' assessment of the impact of COVID-19 on each investment in the portfolio, and obtained updated business plans for each investee to corroborate the impact of this assessment on the year end valuation; • we engaged our valuation experts to assess the approach adopted by the Directors and evaluated the valuation methodology applied in reference to the Group's own valuation policies. We also considered the effects of potential uncertainties of the impact of COVID-19 on the viability of the investments, and the additional funding requirements required due to operational impacts of measures introduced by the UK and overseas governments in response to the pandemic; • we investigated any changes in the fair value of investments and corroborated any such fair value uplifts or write-downs; • we performed an independent assessment to identify any corroborative or contradictory evidence on the performance of the investee companies which may impact the year end valuation assessment; 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.

5.2 Acquisition of VCT fund management contracts

Key audit matter description	This is a new key audit matter for 2020 following the acquisition of three VCT fund management contracts by the Group in December 2019, which management have concluded meet the definition of a business under IFRS 3 and have accounted for this as a business combination. Judgement was required to determine the valuation of the intangible assets recognised as part of the business combination, as well as to determine the fair value of contingent deferred consideration related to the acquisition. The three VCT contracts were acquired for an initial cash payment of £12.4million, an initial issue of shares to the value of £4.2million and deferred contingent cash and share payments for which the fair value at the acquisition date has been estimated at £6.2million. A contract intangible asset of £20.3million, a deferred tax liability of £3.9million and £6.3million of goodwill have been recognised on the Group balance sheet. We have included the key audit matter due to the quantum of the balance, its highly judgemental nature, and the fact that it had an impact on our overall audit strategy. Refer to notes 2, 13 and 23 for the Group accounting policy, management's consideration of critical accounting judgements, business combination and deferred consideration notes respectively.
How the scope of our audit responded to the key audit matter	Our procedures involved: • obtaining an understanding of the key controls over acquisition accounting; • obtaining the underlying cash flow forecasts used to determine the value of the intangible asset, discussing them with management, and challenging the reasonableness and consistency of the underlying forecasts by comparing to historical results and the impact of changes to the value of funds under management in relation to these contracts; • agreeing the value of consideration payable to contractual agreements and to bank statements; • assessing the assumptions used to determine the fair value of the contingent deferred consideration; and • reviewing the associated disclosures to assess whether they are in accordance with IFRS 3.
Key observations	We concur that the acquisition has been appropriately accounted for under IFRS 3 and that the assumptions and methodology used in valuing the identified intangible assets are reasonable.

6. Our application of materiality

6.1 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	£2.7million (2019: £2.3million)	£1.6million (2019: £1.3million)
Basis for determining materiality	2.5% (2019: 2.4%) of the Group's net assets less cash and cash equivalents and short-term liquidity investments.	Materiality for the parent Company was capped at 60% of Group materiality on the basis of the relative size of this component to the Group as a whole. This represents 1.3% (2019: 1.3%) of parent Company net assets less cash and cash equivalents and short-term liquidity investments.
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 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.	

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

a. *the quality of the control environment and our ability to rely on internal controls, and*
b. *the low number of corrected and uncorrected misstatements identified in the previous audit.*

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £136,000 (2019: £115,000), 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.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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 £1.0million to £1.6million (2019: £0.5million to £1.4million). These account for 99% of the Group's revenue and loss after taxation and 98% net assets. Each component of the audit was subject to full scope audit 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.

8. 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.

9. 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.

10. 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

11. 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 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.

12. 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.

13. Matters on which we are required to report by exception

13.1 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.

13.2 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.

14. 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.

Jonathan Dodworth (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, UK
13 July 2020

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Revenue	3	**12,747**	10,675
Other administrative expenses		**(12,661)**	(12,115)
Net revenues/(expenses)		**86**	(1,440)
Fair value movements in investments	4	**(15,844)**	3,916
Share-based payments charge	6	**(528)**	(171)
Amortisation of intangible assets	15	**(852)**	(301)
Operating (loss)/profit before exceptional items	7	**(17,138)**	2,004
Exceptional items	8	**(695)**	–
Operating (loss)/profit		**(17,833)**	2,004
Finance income	9	**246**	562
Finance costs	10	**(26)**	–
(Loss)/profit before taxation		**(17,613)**	2,566
Taxation	11	**159**	54
(Loss)/profit and total comprehensive (loss)/income for the financial year		**(17,454)**	2,620
Basic and diluted (loss)/earnings per Ordinary share (pence)	12	**(5.11)**	0.86

All results derive from continuing operations.

The notes on pages 78 to 100 are an integral part of these financial statements.

Consolidated balance sheet
As at 31 March 2020

	Note	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Assets			
Non-current assets			
Goodwill	14	**16,642**	10,328
Intangible assets	15	**20,063**	584
Property, plant and equipment	16	**125**	153
Right-of-use assets	17	**598**	–
Investments	18	**87,471**	87,659
Total non-current assets		**124,899**	98,724
Current assets			
Trade and other receivables	19	**1,298**	782
Short-term liquidity investments	20	**6,215**	5,188
Cash and cash equivalents	20	**24,438**	25,210
Total current assets		**31,951**	31,180
Total assets		**156,850**	129,904
Current liabilities			
Trade and other payables	21	**(4,805)**	(3,730)
Lease liabilities	22	**(118)**	
Deferred consideration	23	**(1,736)**	–
Total current liabilities		**(6,659)**	(3,730)
Non-current liabilities			
Lease liabilities	22	**(473)**	–
Deferred consideration	23	**(4,446)**	–
Deferred taxation	24	**(3,812)**	(109)
Total non-current liabilities		**(8,731)**	(109)
Total liabilities		**(15,390)**	(3,839)
Net assets		**141,460**	126,065
Equity			
Issued share capital	25	**4**	3
Share premium	26	**81,644**	49,324
Other distributable reserve	27	**70,000**	70,000
Retained earnings		**(12,053)**	5,401
Share-based payments reserve		**1,865**	1,337
Total equity		**141,460**	126,065

The notes on pages 78 to 100 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 74 to 100 were approved by the Board of Directors and authorised for issue on 13 July 2020. 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 2020

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Cash flows from operating activities:			
Operating (loss)/profit		**(17,833)**	2,004
Adjustments to reconcile operating (loss)/profit to net cash flows used in operating activities:			
Depreciation of property, plant and equipment	16	**73**	84
Depreciation of right-of-use assets	17	**139**	–
Fair value movements in investments	4	**15,844**	(3,916)
Share-based payments charge	6	**528**	171
Amortisation of intangible assets	15	**852**	301
Working capital adjustments:			
(Increase)/decrease in trade and other receivables	19	**(514)**	306
Increase/(decrease) in trade and other payables	21	**1047**	(4,030)
Net cash generated from/(used in) operating activities		**136**	(5,080)
Cash flows from direct investment activities:			
Purchase of direct investments	18	**(17,449)**	(19,384)
Investee company loan repayments	18	**1,793**	1,711
Net cash used in direct investment activities		**(15,656)**	(17,673)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	16	**(45)**	(92)
Investee company loan redemption premiums and interest received		**245**	531
Purchase of fund management contracts	13	**(12,400)**	–
(Increase)/decrease in short-term liquidity investments	20	**(1,027)**	4,812
Net cash (used in)/generated from other investing activities		**(13,227)**	5,251
Net cash used in total investing activities		**(28,883)**	(12,422)
Cash flows from financing activities:			
Proceeds from the issue of Ordinary shares	25	**30,000**	–
Transaction costs relating to the issue of Ordinary shares	26	**(1,879)**	–
Payment of lease liabilities		**(120)**	–
Interest paid		**(26)**	–
Redemption of subsidiary undertaking preference shares		**–**	(196)
Net cash generated from/(used in) financing activities		**27,975**	(196)
Net decrease in cash and cash equivalents		**(772)**	(17,698)
Cash and cash equivalents at the beginning of the year		**25,210**	42,908
Cash and cash equivalents at the end of the year	20	**24,438**	25,210

Consolidated statement of changes in equity

For the year ended 31 March 2020

	Issued share capital £'000 (note 25)	Share premium £'000 (note 26)	Other distributable reserve £'000 (note 27)	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**(17,454)**	**–**	**(17,454)**
Issue of share capital	**1**	**34,199**	**–**	**–**	**–**	**34,200**
Cost of share capital issued	**–**	**(1,879)**	**–**	**–**	**–**	**(1,879)**
Share-based payments charge	**–**	**–**	**–**	**–**	**528**	**528**
As at 31 March 2020	**4**	**81,644**	**70,000**	**(12,053)**	**1,865**	**141,460**

Notes to the consolidated financial statements
For the year ended 31 March 2020

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 ('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. 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 of this Annual Report.

For the financial year ended 31 March 2020 the following subsidiaries of Mercia were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies:

Name	Company number
Mercia Investments Limited	09108131
Mercia Fund 1 General Partner Limited	03676974
Mercia (General Partner) Limited	09705072
Mercia Investment Plan LP	LP016783
Mercia Special Limited Partner LP	LP016780
Mercia VCT Nominee Limited	10552972
Enterprise Ventures (General Partner EVF/LEV) Limited	02487876
Enterprise Ventures (General Partner HSBC UK Enterprise Fund) Limited	02816740
Enterprise Ventures (General Partner HSBC UK European Fund) Limited	03909893
Enterprise Ventures (General Partner Coalfields) Limited	04585313
Enterprise Ventures (General Partner Coalfields Growth) Limited	06354288
Enterprise Ventures (General Partner EV Growth) Limited	06354293
Enterprise Ventures (General Partner EV Growth II) Limited	10202807
Enterprise Ventures (General Partner EVG II North West) Limited	11101233
Enterprise Ventures (General Partner FY Seedcorn) Limited	07227779
Enterprise Ventures (General Partner Midlands POC) Limited	10553329
Enterprise Ventures (General Partner NE Venture) Limited	10514693
Enterprise Ventures (General Partner NPIF YHTV Equity) Limited	10514398
Enterprise Ventures (General Partner NW Development Capital) Limited	07398809
Enterprise Ventures (General Partner NW Mezzanine) Limited	08357666
Enterprise Ventures (General Partner NW Venture) Limited	07397841
Enterprise Ventures (General Partner RisingStars) Limited	04322437
Enterprise Ventures (General Partner RisingStars II) Limited	05713861
Enterprise Ventures (General Partner RSGF MPF) Limited	08379651
EVBL (General Partner SYIF SBF) Limited	05566745
EVBL (General Partner FY Small Loans) Limited	07222495
EVBL (General Partner EV SME Loans) Limited	08901773
EVBL (General Partner NPIF Y&H Debt) Limited	10514387

In accordance with section 479C of the Companies Act 2006, Mercia Asset Management PLC will guarantee the debts and liabilities of the above subsidiary undertakings.

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 to these consolidated financial statements.

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, 'Financial Instruments', 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

On 30 January 2020, the World Health Organisation declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. COVID-19 presents the biggest risk to the global economy and to individual companies since the 2008 financial crisis and has had a severe impact on economic growth forecasts worldwide. The impacts of COVID-19 are not yet all apparent and the position will remain fluid until the length and extent of the crisis become evident. Clearly, however, not all industries or companies will be impacted to the same degree. The effects will be felt in a number of areas across the Group and its portfolio companies. Mercia continues to monitor and follow closely the information released from the UK Government and the Directors continue to monitor the impact that the COVID-19 pandemic has on the Group and its portfolio companies. The full extent to which the COVID-19 pandemic may impact the Group's future results, operations and liquidity is uncertain.

The Directors have made an assessment of going concern, taking into account both the Group's current performance and its outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these consolidated financial statements. As part of this assessment the Directors considered:

- an analysis of the adequacy of the Group's liquidity, solvency and regulatory capital position. The analysis used has modelled a number of adverse scenarios to assess the potential impact that COVID-19 may have on the Group's operations and portfolio companies. The Group manages and monitors liquidity regularly ensuring it is adequate and sufficient and this is supported by its monitoring of investments, operating expenses and receipt of portfolio cash income. In addition, Mercia raised £30.0million gross proceeds through its successful placing in December 2019. As at 31 March 2020 liquidity, comprising unrestricted cash and short-term liquidity investments, remained strong at £30.2million (31 March 2019: £29.8million);
- any potential valuation concerns with respect to the Group's direct investment portfolio as set out in these consolidated financial statements. The approach to valuations was consistent with the normal process and valuation policy. A key focus of the portfolio valuations at 31 March 2020 was an assessment of the impact of the COVID-19 pandemic on each portfolio company, considering the performance before the outbreak of COVID-19, as well as the projected short-term impact on the ability to generate earnings and cash flows, and also the longer-term view of each company's ability to recover;
- the operational resilience of the Group's critical functions, which includes the wellbeing of its staff and the resilience of its IT systems. COVID-19 has emphasised the importance of Mercia's and its portfolio companies' focus on keeping employees safe, motivated and able to continue to fulfil their roles effectively where possible; and
- an assessment of the Group's supplier base, considering any single points of failure and contingency plans, should suppliers be deemed at risk.

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, and having considered the impact of COVID-19 on the Group's operations and portfolio, the Directors have a reasonable expectation that the Group is well placed to manage business risks in the current economic environment and has adequate financial resources to continue in operational existence for a period of at least 12 months from the date of this report. 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.

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. Deferred consideration payable to the vendors is measured at fair value at acquisition and assessed annually with particular reference to the conditions upon which the consideration is contingent.

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 effective in the current financial year
The following new standards became effective in the current financial year:

Amendments to IFRS 3, 'Business Combinations'

Amendments to IFRS 9, 'Financial Instruments'

Amendments to IAS 12, 'Income Taxes'

Amendments to IAS 19, 'Employee Benefits'

Amendments to IAS 23, 'Borrowing Costs'

Amendments to IAS 28, 'Investments in Associates and Joint Ventures'

Annual Improvements to IFRS Standards 2015-2017 Cycle

There are no other IFRSs or IFRIC interpretations that are effective that would be expected to have a material impact on the Group.

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. It replaces IAS 17, 'Leases', and introduces new or amended requirements with respect to lease accounting.

The new standard introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
- does not require restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease
The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group carried out an implementation project. The outcome of the project was that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting
IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Payments under operating leases were recognised in the Group's consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Applying IFRS 16 for all leases except as noted below, the Group:

- recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments, with the right-of-use assets adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16: C8(b)(ii);
- recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (also presented within financing activities) in the consolidated cash flow statement.

Lease incentives (eg rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes portable electronic devices, small items of office furniture and fixed telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is included within 'other administrative expenses' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has adjusted the right-of-use assets at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the consolidated balance sheet immediately before the date of initial application, as an alternative to performing an impairment review.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

The financial impact of the adoption of IFRS 16 is set out in note 22 to these consolidated financial statements.

New standards, interpretations and amendments not yet effective

At the date of approving these financial statements, the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

Amendments to IFRS 3 'Business Combinations' – effective for annual reporting periods beginning on or after 1 January 2020.

IFRS 10 'Consolidated Financial Statements' and Amendments to IAS 28 'Investments in Associates and Joint Ventures' – deferred indefinitely.

IFRS 17 'Insurance Contracts' – effective for annual reporting periods beginning on or after 1 January 2021.

Amendments to IAS 1 'Presentation of Financial Statements' – effective for annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – effective for annual reporting periods beginning on or after 1 January 2020.

Amendments to References to the Conceptual Framework in IFRS Standards – effective for annual reporting periods beginning on or after 1 January 2020.

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 is recognised when the Group satisfies its performance obligations, in line with IFRS 15. Revenue from services comprises:

Fund management fees

Fund management fees are generally earned as a fixed percentage of funds under management and are recognised as the related services are provided, as performance obligations are met. Cash receipts in relation to revenues earned are generally received shortly after the start of the relevant invoicing period.

Initial management fees

Initial management fees are generally earned as a fixed percentage of the amounts invested by the Group in recognition of the work involved in each investment round, are one-off payments made by the investee company and are recognised when the performance obligation of providing those services is satisfied at a point in time, being upon completion of the investment. Cash receipts in relation to revenues earned are generally received shortly after completion of the relevant investment.

Portfolio directors' fees

Portfolio directors' fees are earned either as a percentage of the amounts invested by the 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. Amounts invoiced are recorded as deferred income, included in current liabilities and then amortised in the consolidated statement of comprehensive income over the contractual period for which the related services are provided, as performance obligations are met. Cash receipts in relation to revenues earned are generally received shortly after the start of the relevant invoicing period.

1. Accounting policies continued

Interest income

Interest income earned on cash deposits and short-term liquidity investments is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Exceptional items

The Group classifies items of income and expenditure as exceptional when, in the opinion of the Directors, the nature of the item or its size is likely to be material, so as to assist the reader of the financial statements to better understand the results of the operations of the Group. Such items are by their nature not expected to recur as part of the normal operation of the business and are shown separately on the face of the consolidated statement of comprehensive income.

Leases

A lease is defined as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. All operating leases in excess of one year, where the Group is the lessee, are included on the Group's balance sheet and recognised as a right-of-use asset and a related lease liability representing the obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. The right-of-use assets are reviewed annually for impairment in accordance with IAS 36, 'Impairment of Assets'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Subsequently the lease liability decreases by the lease payments made, offset by interest on the liability, and may be remeasured to reflect any reassessment of expected payments or to reflect any lease modifications.

Short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes portable electronic devices, small items of office furniture and fixed telephones) are expensed on a straight-line basis over the term of the lease and presented within 'other administrative expenses' in profit or loss.

Retirement benefit costs

Payments to defined contribution personal pension plans are recognised as an expense when employees have rendered a service entitling them to the contributions. Differences between contributions payable in the 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') and in respect of funds under management acquired through the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM"). At the date of acquisition the fair values of these contracts were calculated and subsequently the assets are held at amortised cost. The fair value of the intangible assets arising from the acquisition of Enterprise Ventures 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. The fair value of the intangible assets arising from the acquisition of the VCT fund management business of NVM is being amortised on a straight-line basis over the expected useful life of the fund management contracts.

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 time frame 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.

1. Accounting policies continued

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.

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 to these consolidated financial statements.

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 consolidated financial statements gives further details on the Group's segmental reporting.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies described in note 1 above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors have made the following judgements and estimates, which have had the most significant effect on the carrying amounts of the assets and liabilities in these consolidated 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"), as revised on 21 December 2018 and effective for accounting periods beginning after 1 January 2019.

Investments are measured at fair value at each measurement date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a hypothetical transaction to sell an asset takes place in the principal market or, in its absence, the most advantageous market for the asset. For quoted investments, available market prices will be the exclusive basis for the measurement of fair value for identical instruments. For unquoted investments, the measurement of fair value requires the valuer to assume the underlying business or instrument is realised or sold at the measurement date, appropriately allocated to the various interests, regardless of whether the underlying business is prepared for sale or whether its shareholders intend to sell in the near future.

In estimating fair value for an investment, the valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the investment in the context of the total investment portfolio and should use reasonable current market data and inputs, combined with reasonable market participant assumptions.

The price of recent investment can be used to estimate the enterprise value, before allocating to the various interests. The Group believes that this is still the most relevant technique to measure fair value for early-stage investments. However, it has also taken into consideration time elapsed, performance since and external market events to help inform its judgements.

0-6 months post last funding round

The Group will apply the price of a recent investment for up to six months post the last funding round, subject to there being no material change to the investee company's prospects (which would include the prospects of drawing down the next tranche or raising the next round of funding).

7-18 months post last funding round

Beyond the six months point, the Group seeks assurance that the investee company is progressing against the development milestones which were set out in the initial assessment. Failing to hit milestones will not necessarily impact the valuation – this may simply be an indicator that incremental value will take longer to deliver, but the performance against milestones is assessed as an indicator of a potential change in value. The Group will be cautious about increasing the valuation of an early-stage investee company unless it is based on a new market price or maintainable revenues and/or earnings.

19+ months post last funding round

From this point onwards, the Group looks for additional support for the 'price of recent investment' by calibrating back to that using a discounted cash flow ("DCF") methodology. However, unless the investee company has become established with maintainable revenues and/or earnings and can be valued on an earnings basis, given the inherent risk in early-stage investing and the lack or reliability of using estimates of such metrics yet to be delivered a number of years into the future, the Group is unlikely to increase the fair value even if a DCF calculation suggests a higher value. Nevertheless, the DCF calculation helps support the proposed fair value at the valuation point.

A key focus of the portfolio valuations as at 31 March 2020 was an assessment of the impact of the COVID-19 pandemic on each investee company's enterprise value, considering the performance before the outbreak of COVID-19, as well as the projected short-term impact on the ability to generate earnings and cash flows, and also the longer-term view of each investee company's ability to recover.

The Group has applied a COVID-19 overlay (assessing some 13 criteria) to help ascertain the potential effects on each of the investee companies' enterprise values. The overall reductions in prices of listed entities was used as a basis to determine a range of COVID-19 discounts between 25% and 100%. The methodology for determining the valuation of investments has been predominantly based on taking the enterprise value from the last funding round and then applying a COVID-19 discount where applicable. This assessment is based on Mercia's knowledge of the investee companies and of the specific effects seen as relevant to each sector within which the investee companies operate. The Group then looked closer at each investee company to assess any mitigating factors (eg Mercia's defensive investment structuring), comparable asset or sector performance to arrive at our valuation.

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

The uncertainty surrounding the ultimate impact of the COVID-19 pandemic has resulted in significant judgement in respect of the future cash flows and hence enterprise values for some of the Group's direct investments. This includes estimation in relation to liquidity and delays to debtor payments; forecast revenue, supply chain, employee and slower growth effects; and the offsetting impact of the Government's and the Bank of England's mitigation measures. The discounts applied to those direct investments which have had fair value decreases in the period reflect increased uncertainty around the duration of stay-at-home and social distancing policies, the speed of recovery from those policies, future inflation, power and oil prices, as well as company-specific factors. These uncertainties have also been reflected in the volatility seen in public markets since March 2020. The direct investment portfolio is diversified by sector and underlying risk exposures. Consideration was also given to the impact of stay-at-home and social distancing policies on the customers of the Group's investee companies, including on their viability and access to liquidity. Almost all of the Group's investee companies have continued to operate since the start of the COVID-19 pandemic.

As described above, the macroeconomic uncertainty has created uncertainty in the fair value of the direct investment portfolio. The Directors believe that they have reflected this uncertainty in a balanced way through the assumptions used in the valuations of each investee company. The Directors have assessed the estimates made in relation to each individual valuation and do not believe that a reasonable possible change in estimate would result in a material change in the value of each investment.

Accounting for the acquisition of the VCT fund management business of NVM Private Equity LLP

On 23 December 2019 Mercia completed the acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP ("NVM"), which comprised the acquisition of three fund management contracts ('the Northern VCT contracts') and the transfer of NVM's VCT investment team. Further details are included in note 13 to these consolidated financial statements. The fund management contracts acquired in the transaction have been fair valued at acquisition with reference to the forecast cash revenues from each contract, less the forecast costs associated with servicing those contracts, over an expected useful life of 10 years for each of the three fund management contracts, discounted at the rate of 15%. The discount applied is reflective of, inter alia, the risk profile of the contracts acquired and is considered a significant assumption. Should the discount rate be increased by 1%, the value of the fund management contracts would reduce by £800,000 with goodwill increasing by a corresponding amount. The expected useful life is considered a significant assumption. Should it be increased by one year, the value of the fund management contracts would increase by £1,300,000 with goodwill decreasing by a corresponding amount. Should the cash revenues from each contract less the costs associated with servicing those contracts increase by 1%, the value of the fund management contracts would increase by £200,000 with goodwill decreasing by a corresponding amount.

Goodwill has been recognised as the difference between the fair value of consideration paid and the fair value of the fund management contracts acquired. Further details are included in note 14 to these consolidated financial statements.

Valuation of deferred consideration

The fair value of the deferred consideration payable to NVM in respect of the acquisition of its VCT fund management business, contingent upon certain conditions being met, has been estimated with reference to the contractual obligations as at 31 March 2020. The conditions upon which payment of the deferred consideration is contingent are outlined below and included in note 23 to these consolidated financial statements.

The first condition is that no termination notice is served by any of the three Northern VCT boards before the first, second and third anniversaries of completion. There are no indications to date that notice will be given, so this has been assumed to be true and the value payable discounted by 10%.

The second condition is that the Group receives at least £16,000,000 of fees in respect of the VCT fund management contracts during the three years post completion. The third condition is that, during the same three-year period, the Northern VCTs collectively raise at least £60,000,000 in new capital. The fair value of the deferred consideration in respect of these two conditions has been based on a weighted probability of outcomes over the three-year period and discounted by 10%.

The discount applied is reflective of the risk profile of the conditions being met and is considered a significant assumption. Should the discount rate be increased by 1%, the value of the deferred consideration would reduce by £200,000 with goodwill decreasing by a corresponding amount.

3. Segmental reporting

For the year ended 31 March 2020, the Group's revenue and loss were derived from its principal activity within the United Kingdom.

IFRS 8 'Operating Segments' defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors. The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being proactive 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 2020 £'000	Year ended 31 March 2019 £'000
Fund management fees	**8,861**	7,282
Initial management fees	**1,286**	1,134
Portfolio directors' fees	**2,380**	2,139
Other revenue	**220**	120
	12,747	10,675

4. Fair value movements in investments

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Net fair value movements in investments (note 18)	**(15,844)**	3,916

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 2020 Number	Year ended 31 March 2019 Number
Asset management	**63**	61
Central functions	**28**	24
	91	85

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 2020 £'000	Year ended 31 March 2019 £'000
Wages and salaries	**7,442**	7,006
Social security costs	**768**	917
Other pension costs (note 28)	**570**	479
	8,780	8,402

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 67, 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 66 to 68 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2020 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	–	50.00p
	31 July 2015	30 July 2025	–	70.00p
	11 August 2015	10 August 2025	–	69.00p
	27 July 2016	26 July 2026	–	51.25p
	24 April 2017	23 April 2027	416,296	40.05p
	24 July 2017	23 July 2027	55,000	36.00p
	15 December 2017	14 December 2027	228,000	37.25p
	28 August 2018	27 August 2028	911,445	30.80p
	31 July 2019	30 July 2029	2,248,444	33.50p
	28 January 2020	27 January 2030	1,814,568	24.30p
Unapproved share option scheme	8 December 2014	7 December 2024	–	50.00p
	31 July 2015	30 July 2025	–	57.50p
	11 August 2015	10 August 2025	–	57.50p
	27 July 2016	26 July 2026	–	51.25p
	24 April 2017	23 April 2027	283,704	40.05p
	24 July 2017	23 July 2027	1,650,000	36.00p
	15 December 2017	14 December 2027	–	37.25p
	28 August 2018	27 August 2028	3,285,555	30.80p
	31 July 2019	30 July 2029	1,209,556	33.50p
	28 January 2020	27 January 2030	3,597,572	24.30p
			15,700,140	

Details of the share options outstanding as at 31 March 2020 and 31 March 2019 are as follows:

	Year ended 31 March 2020		Year ended 31 March 2019	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**13,413,000**	**41.99p**	11,702,000	43.70p
Granted during the year	**9,040,140**	**27.99p**	4,629,000	30.80p
Forfeited during the year	**(1,108,000)**	**36.03p**	(2,168,000)	51.22p
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(5,645,000)**	**50.81p**	(750,000)	56.50p
Share options outstanding as at 31 March	**15,700,140**	**30.22p**	13,413,000	41.99p

There were no options exercised during the financial year. The options outstanding as at 31 March 2020 had a weighted average exercise price of 30.22 pence and a weighted average remaining contractual life of two years.

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
31 July 2019	33.50p	33.50p	1.0%	10 years	30%	13.29p
28 January 2020	24.30p	24.30p	1.0%	10 years	30%	9.64p

Options were granted in the financial year on 31 July 2019 and 28 January 2020. The aggregate of the estimated fair values of the options granted on those dates is £2,531,000.

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 £528,000 (2019: £171,000).

7. Operating loss before exceptional items

Operating loss before exceptional items is stated after charging:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Other administrative expenses:		
Staff costs (note 5)	**8,780**	8,402
Marketing, professional adviser, travel and entertainment and other administration costs	**3,297**	3,103
Depreciation of property, plant and equipment (note 16)	**73**	84
Depreciation of right-of-use assets (note 17)	**139**	–
Expenses relating to short-term leases and leases of low-value assets	**218**	–
Operating lease costs	**–**	364
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**69**	43
– Fees payable to the Company's auditor for other services:		
– The audit of the interim accounts of the Company	**20**	22
– The audit of accounts of subsidiaries of the Company	**35**	67
– CASS related assurance services	**30**	30
Total other administrative expenses	**12,661**	12,115
Share-based payments charge (note 6)	**528**	171
Amortisation of intangible assets (note 15)	**852**	301
Total administrative expenses	**14,041**	12,587

As part of the Group's placing and its acquisition of the venture capital trust ("VCT") fund management business of NVM Private Equity LLP, auditor's due diligence and advisory fees were incurred totalling £173,000, of which £36,000 is included in equity as share issue related costs and £137,000 is charged to the consolidated statement of comprehensive income, as an exceptional non-trading and non-recurring cost.

8. Exceptional items

The exceptional items for the year ended 31 March 2020 represent costs incurred in the acquisition of the VCT fund management business of NVM Private Equity LLP in December 2019 and restructuring costs.

Total acquisition costs amounted to £384,000. Of this total £87,000 were share issue related costs and have been charged to the share premium account (note 26). The balance of £297,000 has been charged to the consolidated statement of comprehensive income, as an exceptional non-trading and non-recurring cost.

The balance of £398,000 is in respect of staff related costs incurred in connection with a restructuring which took place in March 2020.

9. Finance income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Interest income arising from:		
Cash and cash equivalents	**101**	147
Short-term liquidity investments	**29**	74
Investee company loans (interest and redemption premiums)	**116**	341
Total interest receivable	**246**	562

10. Finance costs

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Interest costs arising from:		
Interest payable on leases	**26**	–
Total interest payable	**26**	–

11. Taxation

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Corporation tax:		
Current year	**–**	–
Deferred tax	**(159)**	(54)
	(159)	(54)

The UK standard rate of corporation tax is 19% (2019: 19%). There is no current tax charge in the year (2019: £nil). The deferred tax credit of £159,000 (2019: £54,000) represents the unwinding of the deferred tax liabilities recognised in respect of the intangible assets arising on the acquisition of Enterprise Ventures and the acquisition of the VCT fund management business of NVM Private Equity LLP.

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
(Loss)/profit before taxation	**(17,613)**	2,566
Tax at the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(3,347)**	488
Effects of:		
Income not subject to tax	**(1,200)**	(913)
Expenses not deductible for tax purposes	**3,181**	(1,210)
Other timing differences not recognised	**1,366**	1,635
Unwinding of deferred tax liability	**(159)**	(54)
Total tax credit	**(159)**	(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 included reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Further changes to the UK corporation tax rates were substantively enacted as at 31 March 2020, in Finance Bill 2020 (on 11 March 2020), which included increasing the main rate of corporation tax from 17% to 19% from 1 April 2020.

Deferred tax at the balance sheet date has been measured using these revised rates and reflected in these consolidated financial statements.

As at 31 March 2020, a deferred tax liability of £3,812,000 (2019: £109,000) has been recognised in respect of the intangible assets arising on the acquisition of the VCT fund management business of NVM Private Equity LLP in December 2019 and the acquisition of the entire issued share capital of Enterprise Ventures in March 2016. A potential deferred tax asset of £7,210,000 (2019: £5,995,000) for cumulative unrelieved management expenses and other tax losses has not been recognised in these consolidated financial statements as it is not considered sufficiently probable that the Group will generate sufficient taxable profits from the same trade to recover these amounts in full.

12. Loss per share

Basic loss per share is calculated by dividing the loss for the financial year by the weighted average number of Ordinary shares in issue during the year. Diluted loss per share is calculated by dividing the loss 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 loss and weighted average number of shares used in the calculations are set out below:

	Year ended 31 March 2020	Year ended 31 March 2019
(Loss)/profit per Ordinary share		
(Loss)/profit for the financial year (£'000)	**(17,454)**	2,620
Weighted average number of Ordinary shares (basic) ('000)	**341,401**	303,310
Weighted average number of Ordinary shares (diluted) ('000)	**341,627**	305,018
(Loss)/earnings per Ordinary share basic and diluted (pence)	**(5.11)**	0.86

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

	Year ended 31 March 2020 '000	Year ended 31 March 2019 '000
Weighted average number of shares		
Basic	**341,401**	303,310
Dilutive impact of share options	**226**	1,708
Diluted	**341,627**	305,018

13. Business combinations

The Group consists of Mercia Asset Management PLC and its subsidiary undertakings. Note 39 to the Company's financial statements lists details of the Company's subsidiary undertakings.

On 23 December 2019 Mercia completed the acquisition of the VCT fund management business of NVM Private Equity LLP ("NVM") for a total maximum consideration of £25,000,000 comprising a combination of cash and new Ordinary Mercia shares.

The fair value of the identifiable net assets acquired and the consideration payable under IFRS 3 are as follows:

	Fair value £'000
Fund management contracts intangible asset	20,331
Goodwill	6,314
Deferred tax liability arising on intangible asset	(3,863)
Total identifiable net assets	**22,782**

13. Business combinations continued

Under the terms of the acquisition agreement, the fair value of the consideration payable to NVM is:

	£'000
Cash	12,400
Shares – 16,800,000 shares in Mercia Asset Management PLC valued at 25.0 pence per share on 23 December 2019	4,200
Total initial consideration	16,600
Deferred consideration	6,182
Total consideration	**22,782**

The initial consideration shares were admitted to trading on AIM on 27 December 2019.

Actual revenues and profits of the VCT fund management business

The actual revenues and profits that have been generated since the acquisition of the VCT fund management business on 23 December 2019 to 31 March 2020 are:

	£'000
Revenues	1,917
Profit before taxation	547

The disclosure of the revenue and loss for the Group if the acquisition had occurred on 1 April 2019 has not been presented as the determination of these amounts is impracticable, due to the fact that the entire NVM Private Equity LLP business was not acquired and there will have been revenues and expenses not relevant to the VCT fund management business acquired.

Fair value

The fair value of the management contracts has been estimated using a discounted cash flow model. The estimated cash flows have been valued at a discount of 15%, resulting in the recognition of a fair value for the fund management contracts of £20,331,000.

14. Goodwill

The goodwill arising on the businesses acquired to date, being Mercia Fund Management Limited, Enterprise Ventures Group Limited ('Enterprise Ventures') and the VCT fund management business of NVM, is set out in the table below.

	Mercia Fund Management £'000	Enterprise Ventures £'000	VCT fund management contracts £'000	Total £'000
Cost				
As at 1 April 2018	2,455	7,873	–	10,328
Additions	–	–	–	–
As at 31 March 2019	2,455	7,873	–	10,328
Additions	–	–	6,314	6,314
As at 31 March 2020	**2,455**	**7,873**	**6,314**	**16,642**

Included in additions to goodwill in the financial year is £6,314,000 which arose on the acquisition of the VCT fund management business in December 2019. Details of the consideration paid and assets acquired as part of this transaction are set out in note 13 to these consolidated financial statements.

Goodwill for each business acquired has been assessed for impairment as at 31 March 2020. Recoverable amounts for each cash generating unit ("CGU") are based on the higher of value in use and fair value less costs of disposal ("FVLCD"). FVLCD for each CGU to which goodwill has been allocated was calculated using a revenue multiple model based on the CGU's budgeted revenues for the financial year ending 31 March 2021. The review concluded that the FVLCD recoverable amount of each CGU exceeds its carrying value. The Directors do not consider that any reasonable possible changes to the key assumptions would reduce the recoverable amount of the CGUs to their carrying value.

15. Intangible assets

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

	£'000
Cost	
As at 1 April 2018	1,504
Additions	–
As at 31 March 2019	1,504
Additions	20,331
As at 31 March 2020	**21,835**
Accumulated amortisation	
As at 1 April 2018	619
Charge for the year	301
As at 31 March 2019	920
Charge for the year	852
As at 31 March 2020	**1,772**
Net book value	
As at 31 March 2019	584
As at 31 March 2020	**20,063**

16. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2018	40	68	363	471
Additions	2	9	81	92
As at 31 March 2019	42	77	444	563
Additions	–	1	44	45
As at 31 March 2020	**42**	**78**	**488**	**608**
Accumulated depreciation				
As at 1 April 2018	10	48	268	326
Charge for the year	5	12	67	84
As at 31 March 2019	15	60	335	410
Charge for the year	5	4	64	73
As at 31 March 2020	**20**	**64**	**399**	**483**
Net book value				
As at 31 March 2019	27	17	109	153
As at 31 March 2020	**22**	**14**	**89**	**125**

17. Right-of-use assets

	£'000
Cost	
As at 1 April 2019	–
Additions	737
As at 31 March 2020	**737**
Accumulated depreciation	
As at 1 April 2019	–
Charge for the year	139
As at 31 March 2020	**139**
Net book value as at 31 March 2019	–
Net book value as at 31 March 2020	**598**

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

18. Investments
The net change in the value of investments for the year is a decrease of £188,000 (2019: £21,589,000 increase).

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 2019	87,659
Investments made during the year	17,449
Investee company loan repayments	(1,793)
Unrealised gains on the revaluation of investments	3,351
Unrealised losses on the revaluation of investments	(19,195)
As at 31 March 2020	**87,471**

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 2020 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	52.9	2,790	(2,054)	30 September 2019
LM Technologies	39.4	119	(383)	31 December 2019
nDreams Limited	36.4	(828)	(1,510)	31 March 2019
Soccer Manager Limited	34.8	(2,689)	(930)	31 October 2019
Oxford Genetics Limited t/a OXGENE	30.2	8,945	(3,963)	30 April 2019
Medherant Limited	30.1	1,171	(2,363)	31 March 2019
The Native Antigen Company Limited	29.3	1,835	451	30 September 2019
Nightingale-EOS Limited	28.5	1,028	(12)	31 July 2019
Ton UK Limited t/a Intelligent Positioning	28.2	1,172	(190)	31 December 2018
Intechnica Limited	27.5	3,243	(3,176)	31 March 2019
Impression Technologies Limited	25.9	4,402	(2,763)	31 December 2018
VirtTrade Limited t/a Avid Games	25.8	(3,025)	(1,201)	31 August 2019
Crowd Reactive Limited	22.6	683	121	31 December 2018
Concepta PLC	22.4	2,234	(2,150)	31 December 2019
sureCore Limited	22.0	984	(805)	30 June 2019
Edge Case Games Limited	21.2	1,942	183	30 September 2019

19. Trade and other receivables

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Current:		
Trade and other receivables	**577**	569
Less: expected credit loss allowance	**(205)**	(184)
Net trade receivables	**372**	385
Other receivables	**11**	4
Prepayments and accrued income	**915**	393
	1,298	782

The expected credit losses on trade receivables are estimated 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 Group has defined a default as the failure of a counterparty, including debtors, to discharge a contractual obligation or commitment into which it has entered with the Group.

As at 31 March 2020, an amount of £205,000 (2019: £184,000) has been estimated as an expected credit loss allowance in accordance with IFRS 9, in respect of trade receivables primarily from portfolio companies in the managed funds, and recorded against revenue in the consolidated statement of comprehensive income. The Directors believe that the credit quality of trade receivables which are within the Group's typical payment terms is good.

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

	Gross £'000	Expected credit loss allowance £'000
Not past due	117	(14)
Past due 0-30 days	15	(3)
Past due 31-60 days	74	(40)
Past due 61-90 days	–	–
Past due more than 91 days	371	(148)
	577	**(205)**

A reconciliation from the opening balance to the closing balance of the expected credit loss allowance in respect of trade receivables is set out below:

	£'000
As at 1 April 2019	184
Change in loss allowance due to new trade receivables originated	125
Amounts recovered	(101)
Amounts written off	(3)
As at 31 March 2020	**205**

The increase in the expected credit loss allowance of £125,000 (2019: £72,000 increase) 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.

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

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Cash at bank and in hand	**24,438**	25,210
Total cash and cash equivalents	**24,438**	25,210
Total short-term liquidity investments	**6,215**	5,188

Included within cash and cash equivalents is £467,000 (2019: £629,000) of cash held on behalf of third-party EIS investors which is not available for use by the Group.

21. Trade and other payables

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Trade payables	**729**	206
Tax and social security	**244**	225
Other payables	**908**	794
Accruals and deferred income	**2,924**	2,505
	4,805	3,730

Other payables includes £467,000 (2019: £629,000) of cash held on behalf of third-party EIS investors.

22. Lease liabilities

The only impact on the Group relates to leases for use of office premises at various locations. These were earlier classified as operating leases under IAS 17, with lease rentals charged to operating expenses on a straight-line basis over the lease term. As required by IFRS 16, as a lessee, the Group has recognised a lease liability representing the present value of the obligation to make lease payments, and a related right-of-use asset.

In calculating the present value of the obligation to make lease payments, the Group's incremental borrowing rate has been used as the discount rate, as the rates implicit in the leases are not evident. The incremental rate referred to by IFRS 16 indicates the rate of interest that a lessee would have to pay to borrow over a similar term, with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the Group's consolidated balance sheet as at 31 March 2020 is 3.25%.

22. Lease liabilities continued

The following table shows the operating lease commitments disclosed when IAS 17 was applied at 31 March 2019, discounted using the borrowing rate at the date of initial application and the lease liabilities recognised in the Group's consolidated balance sheet at the date of initial application.

	£'000
Operating lease commitments as at 31 March 2019	1,370
Short-term leases and leases of low-value assets	(42)
Effect of discounting operating lease commitments as at 31 March 2019	(591)
Lease liabilities recognised as at 1 April 2019	**737**

The Group has recognised £737,000 of right-of-use assets and £737,000 of lease liabilities on transition to IFRS 16 with effect from 1 April 2019. As at 31 March 2020, the Group had no lease liabilities in respect of leases committed to but not yet commenced.

The table below summarises the lease costs for the financial year ended 31 March 2020.

	£'000
Depreciation expense	**139**
Interest expense	**26**
Low-value and short-term lease expense	**218**

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

	£'000
Due within one year	118
Due between two and five years	473
	591

23. Deferred consideration

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Payable within one year	**1,736**	–
Payable within two to five years	**4,446**	–
	6,182	–

On 23 December 2019 Mercia completed the acquisition of the VCT fund management business of NVM Private Equity LLP for a total maximum consideration of £25,000,000 comprising a combination of cash and new Ordinary Mercia shares. The initial consideration was £16,600,000, with deferred consideration of up to £8,400,000 also being payable, contingent upon certain conditions being met.

The deferred consideration comprises £6,300,000 in cash, payable in three equal instalments on the first, second and third anniversaries of completion, provided that no termination notice has been served by any of the Northern VCTs before each respective anniversary payment date, and £2,100,000 payable in new Ordinary Mercia shares. There are no indications to date that notice will be given and so the fair value payable has been recognised, discounted back to the acquisition date at a rate of 10%.

50% of the deferred consideration shares will be payable if the Group has received at least £16,000,000 of fees in respect of the Northern VCT fund management contracts in the three years post completion. The remaining 50% of the deferred consideration shares will be allotted and issued if, during the same three-year period, the Northern VCTs collectively raise at least £60,000,000 in new capital. If either or both of these conditions are met the number of new Ordinary shares to be issued to satisfy the deferred share consideration will be calculated based on the average of the daily closing mid-market price for an Ordinary Mercia share, for each of the five days immediately preceding the date of issue. The fair value of this element of the deferred consideration has been based on a weighted probability of outcomes over the three-year period and discounted by 10%.

24. Deferred taxation

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Recognition of deferred tax liability	**3,812**	109

Under IAS 12, 'Income Taxes', provision is made for the deferred tax liability associated with the recognition of the intangible asset arising on the acquisition of the VCT fund management business of NVM Private Equity LLP. This has been recognised at 19% of the fair value of the fund management contracts at acquisition and is reassessed at each year end, with the movement being recognised in the consolidated statement of comprehensive income.

As at 31 March 2020, a deferred tax liability of £3,812,000 (2019: £109,000) has been recognised. Of this total £3,758,000 is in respect of the intangible asset arising on the acquisition of the VCT fund management business of NVM Private Equity LLP and £54,000 is in respect of the remaining intangible asset arising on the acquisition of Enterprise Ventures.

25. Issued share capital

	As at 31 March 2020		As at 31 March 2019	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**303,309,707**	**3**	303,309,707	3
Issue of share capital during the year	**136,800,000**	**1**	–	–
As at the end of the year	**440,109,707**	**4**	303,309,707	3

On 20 December 2019, 120,000,000 new Ordinary shares of £0.00001 each were issued at a price of 25.0 pence per share via a placing which raised £30,000,000 (before share issue costs). These new shares were admitted to trading on AIM on 23 December 2019.

On 23 December 2019, 16,800,000 new Ordinary shares of £0.00001 each were issued at a price of 25.0 pence per share as part of the initial consideration for the acquisition of the VCT fund management business of NVM Private Equity LLP. These new shares were admitted to trading on AIM on 27 December 2019.

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

26. Share premium

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
As at the beginning of the year	**49,324**	49,324
Premium arising on the issue of Ordinary shares	**34,199**	–
Cost of share capital issued	**(1,879)**	–
As at the end of the year	**81,644**	49,324

The premium on the issue of Ordinary shares in the year arises from the placing of 120,000,000 new Ordinary shares of £0.00001 each issued at a price of 25.0 pence per share on 20 December 2019 and 16,800,000 new Ordinary shares of £0.00001 each issued at a price of 25.0 pence per share on 23 December 2019 as part of the initial consideration for the acquisition of the VCT fund management business of NVM Private Equity LLP.

27. 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.

28. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2020 was £570,000 (2019: £479,000). As at 31 March 2020, contributions amounting to £23,000 (2019: £30,000) had not yet been paid over to the plans and are recorded in other payables (note 21).

29. 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 52 to 55 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 2020			
Financial assets			
Long-term financial assets	**87,471**	**–**	**87,471**
Trade and other receivables	**–**	**383**	**383**
Cash and cash equivalents	**–**	**24,438**	**24,438**
Short-term liquidity investments	**–**	**6,125**	**6,125**
Short-term financial assets	**–**	**30,946**	**30,946**
Total financial assets	**87,471**	**30,946**	**118,417**
Financial liabilities			
Trade and other payables	**–**	**(1,637)**	**(1,637)**
Lease liabilities	**–**	**(591)**	**(591)**
Total financial liabilities	**–**	**(2,228)**	**(2,228)**

	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)

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 exposure, while optimising the return on risk, by routinely monitoring the performance of these investments, employing stringent investment appraisal processes. Unquoted equity investments are valued in line with the Group's accounting policy as outlined in note 1 to these consolidated financial statements. Regular reviews of the financial results, combined with close contact with the management of these investments, provide sufficient information to support these valuations, and 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. A default is defined as the failure to discharge a contractual obligation or commitment into which a counterparty has entered with 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 2020 £'000	As at 31 March 2019 £'000
Net trade receivables	**372**	385
Cash at bank and in hand	**24,438**	25,210
Short-term liquidity investments	**6,125**	5,188
	30,935	30,783

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. As at 31 March 2020, an amount of £205,000 (2019: £184,000) has been estimated as a loss allowance in accordance with IFRS 9.

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 the year ended 31 March 2020.

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 Board reviews the capital structure of the Group on a regular basis to ensure that it complies with all regulatory capital requirements.

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. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, sell assets to manage cash or adjust the amount of dividends paid to shareholders. The Group aims to become dividend-paying, subject to maintaining a conservative balance sheet approach.

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 consolidated 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 consolidated financial statements.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined and presents the Group's assets that are measured at fair value as at 31 March 2020. The table in note 18 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.

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Assets:		
Financial assets at fair value through profit or loss ("FVTPL")		
Level 1	**475**	1,133
Level 2	**–**	–
Level 3	**86,996**	86,526
	87,471	87,659

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Liabilities:		
Financial liabilities at amortised cost – deferred consideration		
Level 1	**–**	–
Level 2	**–**	–
Level 3	**6,182**	–
	6,182	–

29. Financial risk management continued
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 2020, the Group had one direct investment listed on AIM (Concepta); this has been classified in Level 1 and valued at its bid price as at 31 March 2020.

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 in Level 1, all other investments held in the Group's direct investment portfolio have been classified in Level 3 in the fair value hierarchy and the individual valuations for each of the companies have been arrived at using appropriate valuation techniques.

Up until 31 March 2019, the Group classified investments included in Level 3 under four valuation techniques, being 'price of recent funding round', 'cost', 'enterprise value' and 'price of recent funding round or cost adjusted for impairment'. From 1 April 2019, the Group has adopted the revised International Private Equity and Venture Capital Valuation Guidelines in its valuation techniques, which specify that the price of a recent investment represents one of a number of inputs used to arrive at fair value, and uses a single classification for all Level 3 investments.

Note 2 to these consolidated financial statements provides further information on the Group's valuation methodology, including a detailed explanation of the valuation techniques used for Level 3 financial instruments.

30. 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 67. Directors' shareholdings in the Group are disclosed on page 68 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 2020, 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 £226,000 plus VAT (2019: £235,000 plus VAT) were invoiced to and paid in full by the Group. The rent charged was determined by an independent market rent valuation of the property, undertaken in October 2014. Rent and service charges are invoiced quarterly in advance. As at 31 March 2020, prepaid rent and service charges amounted to £52,000 plus VAT (2019: £52,000 plus VAT).

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

32. Post balance sheet events
The impact of the outbreak and continuing spread of the novel coronavirus ("COVID-19") is continuing to evolve. The Group is continually monitoring the development of COVID-19 and the current and future impacts it will have on the business. The actions to mitigate these risks have been noted in the Principal Risks and Uncertainties section on pages 52 to 55 of this Annual Report. As discussed in the Strategic Report, at this time, the Directors are not able to reliably estimate the length and severity of the COVID-19 public health crisis and, as such, cannot quantify its impact on the financial results, liquidity and capital resources of the Group and its operations in future periods.

Other than the sale of The Native Antigen Company for up to £5.2million and the continuing completion of approved direct investments, there have been no other material events since the balance sheet date.

Company balance sheet
As at 31 March 2020

	Note	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	37	**115**	139
Right-of-use assets	38	**597**	–
Investments in subsidiary undertakings	39	**40,133**	23,533
Trade and other receivables	40	**91,000**	74,500
Total non-current assets		**131,845**	98,172
Current assets			
Trade and other receivables	40	**530**	299
Short-term liquidity investments		**6,215**	5,188
Cash at bank and in hand		**16,669**	13,815
Total current assets		**23,414**	19,302
Total assets		**155,259**	117,474
Current liabilities			
Trade and other payables	41	**(1,058)**	(374)
Lease liabilities	42	**(117)**	–
Total current liabilities		**(1,175)**	(374)
Non-current liabilities			
Lease liabilities	42	**(473)**	–
Total non-current liabilities		**(473)**	–
Total liabilities		**(1,648)**	(374)
Net assets		**153,611**	117,100
Equity			
Issued share capital	43	**4**	3
Share premium	43	**81,644**	49,324
Other distributable reserve	44	**70,000**	70,000
Retained earnings		**98**	(3,564)
Share-based payments reserve		**1,865**	1,337
Total equity		**153,611**	117,100

The Company's profit for the year was £3,662,000 (2019: £1,259,000).

The notes on pages 103 to 107 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 101 to 107 were approved by the Board of Directors and authorised for issue on 13 July 2020. 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 2020

	Issued share capital £'000 (note 43)	Share premium £'000 (note 43)	Other distributable reserve £'000 (note 44)	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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
Total comprehensive income for the year	–	–	–	3,662	–	3,662
Share-based payments charge	–	–		–	528	528
Issue of share capital	1	34,199	–	–	–	34,200
Cost of share capital issued	–	(1,879)	–	–	–	(1,879)
As at 31 March 2020	**4**	**81,644**	**70,000**	**98**	**1,865**	**153,611**

Notes to the Company financial statements

For the year ended 31 March 2020

33. Accounting policies

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

General information

The general information relating to Mercia Asset Management PLC ('the Company') is set out in note 1 to the consolidated financial statements.

Basis of preparation

The financial statements of Mercia Asset Management PLC 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.

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

The new standards that became effective in the current financial year are disclosed in note 1 to the consolidated financial statements.

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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 6 to the consolidated financial statements.

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.

33. Accounting policies continued
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.

34. Critical accounting judgements and key sources of estimation uncertainty
Details of critical accounting judgements, estimates and associated assumptions are disclosed in note 1 to the consolidated financial statements.

35. 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).

36. 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.

37. Property, plant and equipment

	Leasehold improvements £’000	Furniture and fixtures £’000	Office equipment £’000	Total £’000
Cost				
As at 1 April 2019	42	38	274	354
Additions	–	1	45	46
As at 31 March 2020	**42**	**39**	**319**	**400**
Accumulated depreciation				
As at 1 April 2019	15	35	165	215
Charge for the year	5	2	63	70
As at 31 March 2020	**20**	**37**	**228**	**285**
Net book value as at 31 March 2019	27	3	109	139
Net book value as at 31 March 2020	**22**	**2**	**91**	**115**

38. Right-of-use assets

	Total £'000
Cost	
As at 1 April 2019	–
Additions	702
As at 31 March 2020	**702**
Accumulated depreciation	
As at 1 April 2019	–
Charge for the year	105
As at 31 March 2020	**105**
Net book value as at 31 March 2019	–
Net book value as at 31 March 2020	**597**

39. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2019	**23,533**
Additions	**16,600**
As at 31 March 2020	**40,133**

The Directors believe that the carrying values of the subsidiary undertakings are supported by their value in use.

On 23 December 2019 the Company increased its investment in its subsidiary company Mercia Fund Management Limited by £16,600,000 comprising a combination of cash and new Ordinary shares. Of the total investment of £16,600,000, £12,400,000 was satisfied by cash and £4,200,000 was satisfied by the issue of 16,800,000 Ordinary shares at a price of 25.0 pence per share. The new shares were admitted to trading on AIM on 27 December 2019.

Details of the Company's subsidiary undertakings as at 31 March 2020 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
Mercia VCT Nominee Limited	England	100%	Investment company
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	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.

39. Investments in subsidiary undertakings continued

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

40. Trade and other receivables

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**270**	–
Other debtors	**76**	108
Prepayments and accrued income	**184**	191
Current assets	**530**	299
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**91,000**	74,500
Non-current assets	**91,000**	74,500

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.

41. Trade and other payables

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Trade payables	**164**	46
Accruals and deferred income	**894**	328
	1,058	374

42. Lease liabilities

The Company has recognised £702,000 of right-of-use assets and £702,000 of lease liabilities on transition to IFRS 16, 'Leases', with effect from 1 April 2019. As at 31 March 2020, the Company has no lease liabilities in respect of leases committed to but not yet commenced.

The application of IFRS 16 is disclosed in more detail in notes 1 and 22 to the consolidated financial statements.

The table below summarises the lease costs for the financial year ended 31 March 2020.

	£'000
Depreciation expense	**105**
Interest expense	**25**
Low-value and short-term lease expense	**16**

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

	£'000
Due within one year	117
Due between two and five years	473
	590

43. Issued share capital and share premium

The movements in issued share capital and share premium are disclosed in notes 25 and 26 to the consolidated financial statements.

44. Other distributable reserve

The movements in other distributable reserve are disclosed in note 27 to the consolidated financial statements.

45. 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 2020 Number	Year ended 31 March 2019 Number
Central functions	**9**	12

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 2020 £'000	Year ended 31 March 2019 £'000
Wages and salaries	**950**	1,092
Social security costs	**120**	142
Other pension costs (note 46)	**58**	64
	1,128	1,298

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 65 to 68 of this Annual Report.

46. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2020 was £58,000 (2019: £64,000). As at 31 March 2020, no contribution payments were outstanding (2019: £nil).

47. 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 30 of the consolidated financial statements details the Group's related party transactions.

48. Ultimate controlling party

The Company has no single ultimate controlling party.

49. Post balance sheet events

Note 32 of the consolidated financial statements details the post balance sheet events in respect of the Group.

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
Sarah-Louise Anne Thawley

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

Joint broker
Nplus1 Singer Advisory LLP
1 Bartholomew Lane
London EC2N 2AX

Investor relations adviser
FTI Consulting Ltd
200 Aldersgate Street
London EC1A 4HD

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 2020 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 2020 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2020.
3. That Julian Viggars, 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 Jonathan Pell, 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 reappoint 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 £440.10 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 2021 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 £440.10 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 2021 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 44,010,970;
   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 2021 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

Sarah-Louise Thawley
Company Secretary
31 July 2020

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

Coronavirus ("COVID-19") Annual General Meeting implications

The Company is closely monitoring developments relating to COVID-19. The UK Government has introduced measures and recommendations to prevent the spread of COVID-19, including restrictions on events with large numbers of attendees. These measures and recommendations could change, including additional measures being introduced in the future.

The Company's current intention is to proceed with the AGM at the time, date and place set out in this notice. The Company will continue to monitor UK Government and NHS advice and members will be notified in the event that the Company is required to change its plans. In order that members can exercise their rights whether or not they are able to attend the AGM in person, and as it is important that members cast their votes at the AGM, the Company strongly encourages all members to appoint a proxy for all votes in accordance with the procedures set out in the notes below.

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 22 September 2020 (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 their discretion. Your proxy will vote (or abstain from voting) as they think 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 themselves 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 they are 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 6.30 p.m. on 22 September 2020 (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 their name at that time. Changes to entries on the Register of Members of the Company after 6.30 p.m. on 22 September 2020 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 31 July 2020, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 440,109,707 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 31 July 2020 is 440,109,707.

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 31 July 2020 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 2020.
2. **Resolution 2** – the shareholders are required to approve the Remuneration Report for the year ended 31 March 2020.
3. **Resolutions 3 and 4 – retirement of Directors by rotation** – pursuant to Article 89.1 of the Articles, at each AGM, any Directors who are required to retire by rotation pursuant to the Articles, shall retire and submit themselves for re-election by shareholders.
4. **Resolution 5 – auditor reappointment 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 2021 and 30 September 2021 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time. This authority is limited to a maximum nominal amount of £440.11 (representing 10% of the issued Ordinary share capital of the Company as at 31 July 2020 (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 £440.11 (representing 10% of the issued Ordinary share capital of the Company as at 31 July 2020 (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 2021 and 30 September 2021 (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 44,010,970 Ordinary shares (representing 10% of the issued Ordinary share capital of the Company as at 31 July 2020 (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.

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asset management

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