COMPANY NUMBER **09223445**

Supporting the regions' thriving businesses

Complete • Connected • Capital

Annual Report and Accounts 2021

Welcome

Our vision is to be the first choice for our investors, investees and our employees

The momentum of growth needs finance that flexes with progress.

Contents

Mercia by numbers

c.£940m

Assets under Management ("AuM")

2020: c.£800m

£19.2m*
Revenue
2020: c.£12.7m

£3.3m*
Adjusted operating profit
2020: £0.5m

£34.5m
Profit after tax
2020: £17.5m loss

0.3 pence/share
Proposed final dividend
2020: Nil

£176.0m
Net assets
2020: £141.5m

40.0 pence
Net assets per share
2020: 32.1 pence

10
Profitable exits
2020: 5

17
Shadow portfolio companies

£314.0m
Total liquidity
2020: c.£320m

* Excluding performance fees

Direct investment activity

- £15.4million net invested into 19 portfolio companies during the year (2020: £15.7million into 18 portfolio companies)
- Direct investment portfolio increased to £96.2million (2020: £87.5million)
- Four direct investment portfolio exits generated £20.3million in realised gains (2020: £nil)
- Fair Value Movements ("FVM") £10.1million increase (2020: £15.8million decrease).

Fund management activity

- 2,826 enquiries in the year
- c.£78million of regional equity into 108 companies; c.£17million of regional debt into 65 companies
- 10% of investment in London / South East England, 90% in other regions of the UK
- 467 jobs created in the year by regional venture.

Operational highlights

- Third-party Funds under Management ("FuM") increased to c.£764million (2020: c.£658million) contributing £18.2million in revenue (2020: £11.7million)
- Venture FuM c.£600million (2020: c.£476million)
- Private equity FuM c.£54million (2020: c.£60million)
- Debt FuM c.£110million (2020: c.£122million)
- COVID-19 resilient; no staff were furloughed or made redundant and no direct Government support was utilised
- Portfolio support, fund administration and investment team built in anticipation of further scale of AuM
- Systems now fully digitalised during the year to enable efficiency and scale
- ESG team built with diversity the number one point of focus for the next financial year.

The first choice for ambitious businesses

We provide venture capital, private equity and debt finance to thriving businesses in the regions.

The high-growth companies we support share our values and benefit from the provision of our sustained investment to accelerate value creation. Often overlooked by other capital providers, our focus never falters; to find great domestic businesses with global potential.

nDreams' Phantom: Covert Ops
Received a finalist listing for The VR Awards 'Game of the Year', *winning the TIGA* Awards 'Best VR/AR Game' for 2020 and the studio itself won a prestigious Lloyds TSB National Business Award for Exporter of the Year.

p28

Investment that allows thriving businesses to achieve sustained success.

c.430

companies in our portfolios

The first choice for regional growth

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

Our long-established relationships with embedded regional networks and the continued investment in Mercia as we scale our platform, ensure that we are resourced to realise our ambition to become the leading domestic venture capital investor.

Bullring & Grand Central, Birmingham
Investing exclusively in the UK's thriving regions, adding value through our talent and expertise and our proven hybrid investment strategy, have delivered 10 exits from our regional investments.

Momentum in regional growth in alignment with Environmental, Social and Governance ("ESG") issues.

p12

Our strategy

Complete Connected Capital, value creation through the proactive delivery of the right capital to the right businesses, at the right time

£79.0m

invested in regional businesses during 2021

The first choice for empowered people

It is the people of #OneMercia who chart the course of our success.

We are defined by the people who work at Mercia and the values that they embody. They are the bedrock of our business, driving new efficiencies in the way we work together.

Success comes from engaging with diverse people, partners and possibilities.

c.100

Value-led team members across 8 UK locations

Lisa Ward,
Head of Portfolio Resourcing

Lisa's deep-industry experience and talent-identification skills allow her to define the needs of our portfolio businesses and match them with the requisite Non-executive Director ("NED") talent, to drive sustained growth and accelerate results.

p18

Responsible business

ESG issues are driving the agenda with investors to influence how capital is being invested

At a glance

From origination to exit, our numbers stack up

Balance sheet
Up to £10m

We have created a shadow portfolio within our managed funds tracking businesses looking for Series A capital and rapid growth. Our disciplined use of the balance sheet to make strategic investments, aligned with our platform, are at the core of our ambitions. Our partnership approach and integrated investment practices deliver shareholder and investor value. The average holding period of our direct investments is three years with an expectation that investments will be realised in three to seven years.

£54.7m
Unrestricted cash

See more on p34

Venture
£100k–£10m

From proof-of-concept to scale-up, we are closing the funding gap in the regions, demonstrated by our track record of capital investment into local businesses. Our investment capital and applied advice fuel emerging sectors and support growth in entrepreneurial companies that want to build strong, sustainable businesses in the regions. We work closely with our portfolio that shares our ambitions, aligned to the sustainable agenda as it expands.

c.£600m
FuM

See more on p36 to 39

Private equity
Up to £10m

We take a hands-on approach engaging with our portfolio to understand what capital solutions these profitable businesses need when seeking to transition. From buyouts to buy-ins, cash-outs to growth capital, we work with businesses to provide investment that supports a focused equity value-creation plan that allows these regional SMEs to achieve their potential.

c.£54m
FuM

See more on p40

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

We have eight regional locations across the UK from where our team can be based.

1	2	3
Newcastle	**Preston**	**Leeds**
4	5	6
Manchester	**Sheffield**	**Nottingham**
7	8	
Henley-in-Arden	**London**	

Debt
£100k–£1m

Often the most viable solution for SMEs that need flexibility of terms from a financing structure, these funds became even more relevant as companies aim to overcome the challenges of COVID-19. Mercia is a specialist in providing structured lending solutions adapted to the specific requirements of these SMEs including buyouts, replacement capital and equity preservation, often working alongside Mercia's other funds as part of the Complete Connected Capital model.

c.£110m
FuM

See more on p42

Total invested
2021

Balance Sheet
Portfolio 23
Invested £15.4m

Venture
Portfolio 245
Invested c.£56m

Private equity
Portfolio 8
Invested £0.8m

Debt
Portfolio 150
Invested £16.8m

Total portfolio

8
Regional locations

c.100
Employees

Non-executive Chair's statement

The execution of Mercia's strategy has materially grown shareholder value

Ian R. Metcalfe
Non-executive Chair

Notwithstanding the COVID-19 pandemic backdrop, with all of the ensuing social and economic challenges, the year to 31 March 2021 has been one of positive and profitable progress for Mercia.

#OneMercia

Throughout the year, the Group's senior leadership team demonstrated its business experience, investment expertise and compassion. No staff were furloughed or made redundant, no direct Government support was utilised and no payments were delayed. The excellent reaction and commitment of all staff to the sudden switch to remote working in March 2020, which has largely continued to the present day, has spoken volumes about our #OneMercia culture. Our people define us and it has been a source of huge pride to see them all doing everything they can to support our portfolio companies, and just as importantly, each other.

Direct investment portfolio

It has been an excellent year for our direct investment portfolio, with four cash exits generating £20.3million in realised gains (2020: £nil) and net fair value uplifts across the remaining direct portfolio totalling £10.1million (2020: £15.8million unrealised loss).

The highlight was the exit from our second largest direct investment (by fair value), Oxford Genetics t/a OXGENE, which over a five-year investment period, generated cash proceeds of £30.7million against an investment cost of £6.1million.

The Group's investment experience in Life Sciences, Software and Digital Gaming-related technologies came to the fore during the year, with most of the Group's investees in these sectors making accelerated commercial progress, reflected in their upward fair value movements. Whilst our advanced manufacturing businesses bore the brunt of the sudden global economic paralysis in the early days of the pandemic, they have now largely stabilised and many are now showing renewed commercial traction.

Portfolio liquidity and access to additional capital, when needed, are imperative to preserve shareholder value during economic shocks. I am pleased to say that Mercia has been able to fully support its direct portfolio with additional capital, as required, during this period. In addition, the Group has provided non-executive director/executive director resource, digital marketing support and a series of webinars on subjects relevant to managing a young business through a sharp economic downturn.

The remaining portfolio is showing excellent promise and we expect to add several new companies during the new financial year. With the direct portfolio companies well-funded and in good shape overall, the investment team is fully focused on delivering another year of successful realisations and fair value progress.

This time last year valuations were falling in many of our Funds under Management ("FuM"), in parallel with wider market corrections. Those falls largely stabilised during the autumn of 2020 and it is pleasing to see further material growth in our total Assets under Management ("AuM") for the year as a whole. This is being driven both by new funds raised and improved fund performance.

Strategic update – new three-year targets

Set in March 2019, the Group's three-year strategic objectives were centred on making Mercia a self-sustaining investment group. The three principal objectives were:

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

Two years in it is very pleasing to see the first two objectives comfortably achieved and the third within touching distance. Even though the existing strategic objectives have one further year to run, Mercia's Board has recently agreed a new and ambitious three-year plan: 'Mercia 20:20'.

'Mercia 20:20': The Group will aim:

- to grow its AuM by an average of 20% per annum over the next three years; and
- to deliver average pre-tax profits of £20.0million per annum over the same three-year period.

The achievement of these two new strategic objectives is expected to deliver substantial total shareholder returns during the next three years.

Dividend

On 1 December 2020, in conjunction with the announcement of its interim results, Mercia declared its maiden interim dividend of 0.1 pence per share and the start of a progressive dividend policy. The excellent second-half performance coupled with the Group's future prospects has enabled Mercia's Board to recommend a proposed final dividend of 0.3 pence per share.

If approved by shareholders at September's Annual General Meeting, the dividend will be paid on 12 October 2021 to shareholders on the register at close of business on 24 September 2021.

In anticipation of continued profitable progress in both trading and investment realisations, the Board's objective is a year-on-year progressive increase in both its interim and proposed final dividends.

Governance, sustainability and engagement

Good Board governance, cohesion and a sense of common purpose are vital when navigating any company through turbulent times. In November 2020, we welcomed Diane Seymour-Williams onto our Board. Diane's asset management background, including with Venture Capital Trusts, is an excellent addition to our existing Board skill-set and investment experience. Diane settled in quickly and started making a positive contribution immediately. In recognition of her deep asset management expertise and experience, she has recently been appointed as the Board's Senior Independent Director.

Throughout the year, the Executive Directors (together with the Group's Chief Operating Officer, Peter Dines) and Non-executive Directors have worked constructively together and willingly pooled their varying talents and experiences to steer Mercia through the pandemic. We now wish to incentivise key executives, aligning them with the performance of the business and shareholders' interests. We are therefore intending to put in place a new performance share plan, with stretching performance conditions, for certain senior executives. We believe this will both incentivise those senior executives, and act as a powerful retention tool.

These excellent financial results are testament to the collective efforts of not just the Board, but of each and every Mercia employee.

Critical to our increasing success, is continuing to meet the investment objectives agreed with our different asset class fund investors. Despite the economic shocks of the last year, we have continued to meet our commitments to all our external stakeholders. This has included continuing to hire and train new investment talent, further develop the investment skills of the existing teams whilst supporting them all with lead generation, marketing, investee recruitment resource and in-house legal investment advice. In particular, we have further developed our relationships with the three Venture Capital Trust ("VCT") boards and remain fully focused on, and committed to, investing in and supporting the VCT investment team in helping them to manage and expand the VCT portfolios.

Mercia has always been a responsible investor and many of its fund and balance sheet portfolio companies are developing technologies which help reduce carbon emissions. During the year, we asked Jill Williams, one of our private equity Investment Directors, to become our Head of Environmental, Social and Governance ("ESG"). Jill's passion for ESG and her wide-ranging brief will help Mercia to play its part in minimising our carbon footprint, contributing positively to society's needs, whilst continuing to be guided by a strong governance culture in all our dealings. Since its inception in 2014, the Group has embedded a strong corporate governance ethic in all 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 remains fundamentally important to our Board. Whilst the intermittent lockdowns and remote working imperatives have curtailed face-to-face engagement during the last year, I look forward to furthering those relationships for the mutual benefit of all stakeholders during the current financial year.

Outlook

These record financial results speak louder than words can about the quality of the business which we have built and the calibre of our people. We greatly appreciate the continuing support and encouragement of our shareholders and advisers and are pleased to be delivering on our potential for shareholder value creation.

With signs of economic normality returning and heightened interest in several of those sectors into which Mercia invests, the future prospects for Mercia have never been better.

Notwithstanding our excellent cash position, we will maintain our investment discipline and focus whilst expanding our regional presence and talent pool. Our new strategic objectives speak to our growing confidence and ambition, and I look forward to updating shareholders this time next year.

Mercia has grown significantly since its IPO on AIM in December 2014, via a combination of organic initiatives and two successful acquisitions. We anticipate that this combined approach will continue during the next three years, thereby increasing total shareholder returns.

Finally, whilst the last 12 months have been challenging and difficult at times, they have exemplified what Mercia represents. As Chair, I am immensely proud to be part of #OneMercia, which continues to be a community of outstanding people who care about the funds we manage, the companies in which we invest or to which we lend, and, most importantly of all, who care about each other. The successful execution of Mercia's strategy by our staff during this tumultuous year has materially grown shareholder value and proved that the Mercia Model works for all stakeholders. Long may that continue.

Ian R. Metcalfe
Non-executive Chair

Our strategy

Delivering on our strategy and raising our ambition

Two years into our three-year strategic plan, we have substantially reached our three objectives, delivering value to all our stakeholders.

Increase AuM to at least £1.0billion

- Organic growth in Seed Enterprise Investment Scheme ("SEIS") and Enterprise Investment Scheme ("EIS") funds
- New mandates
- Selective acquisitions.

Progress

In 2021, we increased assets under management ("AuM") from c.£800million to c.£940million.

- Consolidated net assets increased from c.£142million to c.£176million
- Third-party FuM increased from c.£658million to c.£794million.

Achieve operating profitability

Supported by

- Recurring revenue from Funds under Management ("FuM")
- Track record of organic growth
- A culture of financial discipline.

Progress

Through our significant growth in AuM and our track record of organic growth, together with a well-established culture of financial discipline, we have achieved sustainable operating profitability and the ability to fund a progressive dividend policy.

In 2021, we generated adjusted operating profits of £3.3million supporting a proposed final dividend payment of 0.3 pence per share (2020: nil).

Evergreen our balance sheet

- Funding our direct investment activities through periodic cash realisations from our direct investment portfolio.

Progress

- Four cash exits in FY2021 generating £37.0million in cash and £20.3million in realised gains
- Direct investments are well-funded and supported by Mercia's platform and network; well-positioned for future realisations
- Promising companies in managed funds to maintain the investment cycle as current investments are realised.

01/02/03

Raising our ambition: 'Mercia 20:20'

Looking forward, our aim is to continue to deliver value for all our stakeholders - our employees, our investors, our investee companies, our shareholders and our communities.

Our strategy is one of sustainable growth, acting as a responsible investor and a responsible employer. This philosophy is embedded in our business operations and is the backbone of our Environmental, Social and Governance ("ESG") commitment.

The need for connected capital to support UK SMEs is substantial and growing. Mercia, through its Complete Connected Capital solution, regional presence and support platform is uniquely positioned to significantly contribute to fulfil this critical need. This is why we have now set out the following targets for the next three years:
- Grow AuM by an average of 20% per annum over the next three years;
- Achieve average pre-tax profits of £20.0million per annum over the same three-year period.

The achievement of these two new strategic objectives will deliver substantial total shareholder return and value for all our stakeholders.

Responsible investor

- Local presence
- Disciplined investment process with ESG framework
- Business support; talent development and local recruitment.

Responsible employer

- Diversity and inclusion
- Training and development
- *Wellbeing support.*

Chief Executive Officer's review

Complete Connected Capital:

Sustained growth in the regions

Turn over to read Mark's full review.

0%

Staff furloughed or made redundant during the pandemic

10

Profitable realisations this year

"

I would like to thank all those who have supported us as we moved through this transitional year to become the leading provider of support and capital to the thriving regional businesses that we have the great pleasure and privilege to work with.

Dr Mark Payton
Chief Executive Officer

Chief Executive Officer's review continued

The positive momentum of our business during the last 12 months is in part a result of the swift actions taken as the COVID-19 pandemic broke, leading to an excellent year for the Group and one which demonstrates the resilience and potential of the Mercia Model, which is now delivering with continued momentum.

- Increase in revenue 50.5% (2020: 19.4%)
- Increase in adjusted operating profit c.550% (2020: n/a)
- Increase in AuM 17.5% (2020: 57.8%)
- Direct investment realisations £20.3million (2020: £nil)
- Direct investment fair value increase £10.1million (2020: £15.8million decrease)
- Unrestricted cash on hand £54.7million (2020: £30.2million)
- Total Group unrestricted liquidity c.£314million (2020: c.£320million)
- NAV per share 40.0 pence (2020: 32.1 pence)
- Proposed final dividend 0.3 pence per share (2020: nil).

Assets under Management

The 17.5% growth in AuM has arisen from the strong performance of our venture and proprietary capital portfolios, plus net asset value increases from profitable exits.

	AuM 1 April 2020 £'m	Distributions £'m	Net funds flows £'m	Performance £'m	**AuM 31 March 2021 £'m**
Venture	476	(16)	13	127	**600**
Private equity	60	(6)	–	–	**54**
Debt	122	(5)	(7)	–	**110**
Proprietary capital	142	–	–	34	**176**
Total	**800**	**(27)**	**6**	**161**	**940**

I am incredibly proud of how the whole team at Mercia have pulled together in this remote working environment, creating new efficiencies in the way we work together, including digitalisation throughout the Group. Much of this positive change, such as digital deal origination, is now embedded and permanent as we move to a blended office / homeworking environment.

There are two elements to the Group's sustainable performance that interleaf in a highly synergistic manner. Our growing managed funds operations selectively deliver future direct investments, provide strong returns for our valued fund investors and Northern VCT shareholders, and underpin Mercia's progressive dividend policy. Connected tightly to this is our proprietary capital which selectively seeds new managed funds, accelerates the growth of promising businesses in our managed funds and provides ongoing growth capital to our direct investments. This has enabled us to deliver growth in NAV per share in the year of 24.6% and a blended direct portfolio internal rate of return ("IRR") of c.15% since Mercia's IPO in 2014.

Resetting our strategic goals: 'Mercia 20:20'

Having largely delivered on the strategic targets set in 2019 one year ahead of plan, i.e. grow AuM to £1.0billion, move the Group to sustainable profitability and evergreen the balance sheet, it is now right to set new three-year strategic goals. We remain ambitious to deliver significant long- term growth in shareholder value and our new strategic objectives, Mercia 20:20, are aligned with this goal. Over the next three years, on average, we will aim to grow total AuM by 20% per annum and deliver £20.0million profit before tax per annum.

First choice for investors, investees and employees

Mercia's hybrid investment model has now achieved critical mass as the synergies deliver both growth in underlying profit from the fund management operations and the returns from our proprietary investment activity. This self-financing model enables Mercia to compete domestically on a regional basis across the UK. Our focus is simple – develop a model, systems and internal expertise to source the best deals, win the deals, buy well, accelerate value creation through direct support and then exit those investments for the benefit of our fund investors, management teams and shareholders.

Mercia's competitive advantage stems from our passion of concentrating on two key connected themes: (i) responsible investor and (ii) responsible employer, which are reinforced by our core values of Growth, Knowledge, Responsive and Trust.

1 Before net performance fees

Responsible Investor

Our origin and focus is to invest exclusively in the UK, targeting what we term as 'Thriving Regional Businesses' that are seeking capital in the form of debt, private equity, venture capital or a combination of these. Physically located in the regions, we employ locally for Mercia and our portfolio. The high-growth companies we support are typically less than 10 years old, often seeking capital of less than c.£50million in total and are frequently overlooked by most capital providers.

Our focus is the provision of finance and support for these businesses with Environmental, Social and Governance awareness ("ESG") at the heart of our operation. Not only do we have an ESG team at Mercia capably led by Investment Director Jill Williams, but this emphasis also cascades from the Board throughout the Group. The ESG team have set 'diversity' for Mercia, and its portfolio companies, as their priority for this coming financial year. In addition to our investment activities, we also operate Mercia Spirit where employees give their time and raise money to support local and national causes. Our nominated charities are Cancer Research UK and The Skills Builder Partnership, the latter targeted at helping regional schools. An additional resource, which is not charged to Mercia's portfolio, is the provision of training, webinars, marketing services and executive search (for board, executive and senior management level) via our Marcomms team led by our Head of Marketing and Communications, Alison Dwyer and by our Head of Portfolio Resourcing, Lisa Ward.

Responsible employer

Fundamentally we are only as good as the people we attract, employ and retain. Our People and Talent team led by Michelle Heaselgrave are exceptional and, combined with the benefits and support we provide to our teams, we believe that Mercia is becoming a first-choice employer. Our strong focus on group-wide communications ensures aligned Group performance by a motivated team; what we term #OneMercia. In addition, we will constantly strive to develop our team further. Our Mercia Academy is an important part of this, and we are recruiting to build out the People and Talent team to provide additional internal expertise to lead on talent development.

Outlook

This last year has seen venture businesses in Diagnostics, Biotech and Software sectors excel. These sectors have delivered the majority of both the Group's investment realisations this year and net asset value growth. The 10 profitable fund and direct investment exits in this reporting period are a record for Mercia and derived from our regional venture funds, Enterprise Investment Scheme ("EIS") funds and the Northern Venture Capital Trusts ("VCT"); three of the 10 also benefitted from our proprietary capital. This excellent performance puts us in a strong position for continued growth in all asset classes within our third-party Funds under Management ("FuM").

Certain businesses operating within Deep Tech and Clean Tech, including in the Automotive sector, were negatively impacted by the pandemic back in March 2020. During the year, we focused hard on supporting these businesses, however not all of the fair value decreases from last year have reversed. Our investment thesis is that these sectors that were hurt the hardest last year will in due course recover. We passionately believe in investing through the cycle and during the year we have invested £94.4million across the Group in 76 new businesses and 97 existing portfolio companies. A number of these were in Deep Tech, Clean Tech, Life Sciences and purpose-led businesses; sectors we believe will be core value creators in the near to medium-term future.

Economists forecast UK domestic growth of between 5% to 8% for 2021. This is an excellent backdrop for Mercia and its portfolios as we begin the new financial year with confidence in our new Mercia 20:20 vision, whilst ensuring we remain both a responsible investor and employer as we continue to seek to be the first choice for investors, investees and employees.

Dr Mark Payton
Chief Executive Officer

"We are only as good as the people we attract, employ and retain."

76

New businesses receiving investment

97

Portfolio businesses receiving follow-on investment

Responsible business

Accelerating our ESG journey

Our commitment to expand our responsible investment agenda has placed sustainability at the heart of our culture.

12%

Portfolio businesses that are purpose-led

Progress in our journey has seen the integration of our Environmental, Social and Governance ("ESG") framework into our investment analysis and decision-making and this will remain an ongoing priority for all of us.

Jill Williams
Jill is Investment Director, Private Equity and leads Mercia's Responsible Investment Committee – a Group-wide team committed to delivering the ESG strategy across the business.

In this section

Responsible business continued

Delivering a positive social impact to the regions

Our vision is to be the first choice for our employees, investors and investees and we are proud of the progress that we have made on this journey that has seen us welcome a diverse and respected stakeholder base. Our investors, shareholders and team have responded to our commitment to build a culture, inclusive business model and innovative investment solutions capable of building a sustainable future for all our stakeholders.

Mercia has always been a purpose-led business; providing growth capital and tailored investment solutions to thriving regional businesses to create long-term shareholder value. The pandemic has shone a light on the inherent value of being a responsible business which can be seen in our tangible results as well as the indefatigable spirit of the team. Being able to call upon and leverage the diversity of skills, critical analysis, problem-solving and strength of character that such a multifaceted team brings to bear, has allowed Mercia to make decisions guided by our core values, while always ensuring we look back on our results with a critical eye. We believe our culture of empowerment, trust and entrepreneurial spirit enables us to design and implement innovative investment solutions to support the attainment of our vision.

c.£94m

Invested into the regions

467

Jobs created by regional venture

Codified commitment

Within the last year, we've challenged ourselves to codify our ESG approach, which we have done in three ways:

- Reviewing Mercia's own values and culture
- Analysing and better understanding our origination and pre-investment analysis process
- Developing our focus on our portfolio value-creation tactics, especially around reporting and ongoing monitoring.

Mercia has a history of making a difference to the regions and delivering a positive social impact to our stakeholders, which we see as an integral part of our financial return motivation. As part of our commitment to operate responsibly, we are taking the long view in delivering sustainable investment solutions. We have supported our portfolio companies with job creation and protection within the UK regions, as well as engaging with our communities to address inequalities and pursue sustainable economic growth through technological innovation. We are proactively seeking to incorporate ESG while building and managing our portfolio, building on the last year's momentum.

Our approach is now entrenched with the establishment of our Responsible Investment Committee, which ensures delivery against our guiding principles, inspired by the UN's Sustainable Development Goals ("SDGs"):

Sustainable economic growth:
- Provide support for entrepreneurship and SME growth
- Support and promote job creation and talent development
- Focus on technology innovation.

Reducing inequalities within our communities:
- Reduce inequalities across the UK and within UK regions
- Empower and promote diversity and inclusion.

Health and wellbeing for all:
- Promote health and wellbeing
- Support the identification and use of effective and essential treatments and other healthcare services.

“

The more a company can share its purpose in delivering value to employees, customers, and communities, the better able that company will be to compete and deliver long-term durable profits for shareholders.

Jill Williams, Investment Director

Our ESG policies have been designed by the committee that is representative of all divisions and teams within the Group, supported by a route map that ensures that achieving our goals has realistic and timely deadlines and will be readily adopted by all Mercia employees. This route map encompasses our values, using these as building blocks:

ESG route map:

1. Responsible investor

2. Three guiding principles

3. Our own values and culture

4. Pre-investment analysis & decisions

5. Create value in portfolio companies

6. Report on our progress and activities

1. Mercia is a Responsible Investor

2. We have established three guiding principles inspired by the UN's SDGs

3. We apply these guiding principles to our own values and culture

4. We incorporate our guiding principles and ESG risks and opportunities into our pre-investment analysis and decisions

5. We consider ESG-related risks and opportunities to create value in our portfolio companies

6. We will report on our progress and activities towards implementing our responsible investment, strategy and practice.

The policies have been shared with all employees at Mercia supported by a series of internal training sessions and aligned webinars demonstrating through use cases the application and impact of these policies.

Responsible Investment Committee

Ian Atkinson
Debt team

Alex Gwyther
VCT team

Nigel Owens
Direct portfolio team

Dr Mark Payton
CEO

Sandy Reid
Midlands Engine Investment Fund ("MEIF") team

James Sly
EIS/VCT team

Thea Tebble
North East Venture Fund ("NEVF") team

Jill Williams
Private Equity team

Mark Wyatt
Northern Powerhouse Investment Fund ("NPIF") team

Responsible business continued

Engaging with our stakeholders

(Section 172 of the Companies Act 2006 "s172")

When our employees are performing their duty to promote the success of Mercia, the interests of all our stakeholders who will have an impact on the longer-term success of the company are considered.

This s172 statement explains how Mercia directors:
- have engaged with employees, shareholders, fund investors, investee companies and others; and
- have considered employee interests as well as our business relationships with suppliers, customers and others, when taking decisions during the financial year.

Fundamentally, Mercia can demonstrate how aligned it is with the principles of s172 through its business model and how persuasive our values are in informing our engagement with our stakeholders.

Our people

The strength of our employees has in no better way been demonstrated than in their conduct and resilience during COVID-19. Their care for each other and Mercia's external stakeholders is most valued by the Directors and we are delighted to see the team grow to c.100.

How we engage

We invest in training, coaching and skills acquisition. Continued development of our employees is a key pillar of the Group's strategy and this is achieved by events such as:
- bi-monthly equity team training, What We Do days, Slack communities, webinars; and
- bespoke training crafted to the needs identified in each person's professional development review.

We aim to be a responsible employer in our approach to the benefits afforded to employees and, importantly, the health, safety and wellbeing of our team:
- Mercia Heart is a Group-wide initiative to foster goodwill and support team motivation through a series of novel gifts and outreach activity
- Mercia offers a comprehensive employee benefits package, including access to an Employee Assistance Programme and weekly counselling service for employees and immediate family members
- 40% of the team are active users of the Headspace meditation app and this is supplemented by a range of webinars around mindfulness, resilience and physical health
- Health & Safety has remained a key focus due to COVID-19, including Mercia providing COVID-19 testing for employees and families.

We provide frequent and transparent communication through:
- Weekly 'all hands' Zoom meetings led by the CEO, bi-yearly State-of-the-Business meetings for the entire team and more regionally focused meetings when the CEO communicates with the teams across the local offices
- Informal engagement is supported by bi-weekly newsletters and Away Days when the Company can spend quality time just having some fun together
- Our book club, 'The Bookery', as well as other group activities are appreciated by the team with active sharing of ideas, commentary and feedback contributed to Mercia's various Slack communities on a regular basis.

The Board is pleased to share that the Employee Net Promoter Score ("NPS") has gone from +28 to +46.

Shareholders and fund investors

Mercia firmly adheres to the requirement to provide stakeholders with timely and accurate regulatory and non-regulatory information through the formal channels. This year, we have offered additional proactive outreach to provide visibility and broaden stakeholder exposure to a range of our portfolio businesses and the investment team. We also focused on the core concerns of our shareholders around sustainable investment performance.

How we engage

Due to the restrictions enforced by the pandemic, Mercia migrated its meetings, seminars and presentations online and included extensive Q&A sessions to ensure that these events embraced two-way communication. If time did not allow all questions to be addressed, written answers were provided later to all attendees. Utilising Zoom extensively, the Group was able to offer a range of events and communication:

- Mercia Executives regularly presented at and participated in virtual shareholder and investor events, including mini Capital Market Days for Mercia Asset Management PLC as well as seminars for its managed funds; EIS and the Northern VCTs. These events were well-attended, many stakeholders preferring the digital format. All recordings were made available on the Mercia website
- A quarterly PLC newsletter, 'The Insight', was launched to provide additional updates about Mercia and the portfolios. These updates included video interviews with portfolio Chief Executive Officers ("CEOs") from various companies as well as panel discussions that were either sector or issue-specific
- Regular meetings with institutional investors, both shareholders and non-shareholders, continued and members of the senior team participated in industry conferences and workshops
- Digital outreach, including frequent short video updates from portfolio CEOs and NXDs, aligned to the regulatory news stories, provided added depth to the news flow. This was further supplemented with key interviews about exits and progress of the portfolio.

Our investees

During the reporting period, we have worked progressively with our portfolios to ensure that we provide them with the capital and support required to assail what was a volatile commercial environment for many. The success of these portfolios in navigating the pandemic, and in many instances leverage the unintended opportunities to their advantage, pays homage to the agility, tenacity and strength of these thriving regional businesses and the management teams that lead them.

How we engage

Our Complete Connected Capital provides bespoke capital solutions for our portfolio, but equally, we also ensured that our Founders, CEOs and NXDs had access to our applied knowledge as well as the learnings and information-share from both subject experts and other portfolio leaders and decision makers:

- An extensive programme of webinars and panel discussions on a range of business, geopolitical and pandemic subject matter were offered to all – widely publicised and shared via emails, Slack channels and newsletters
- Frequent newsletters to the portfolios' leaders and NXD network updated these audiences with the progress of the Group, portfolio successes and relevant subject matter that could have a positive impact
- Chair Summits to provide knowledge-share and progressive discussion between the NXDs were offered and included thought leaders as part of the programmes
- 'The Insight', Mercia's PLC newsletter, was also shared with all investees
- Seminars that were presented by Mercia's Executives and other portfolio business leaders included 'The Portfolio Review', 'VCT Digital Seminar' and Mercia's 'Virtual Shareholder Event'. This ensured that all portfolio leaders were fully informed on all aspects of Mercia
- Regular insight articles, interviews and share-of-voice commentary were frequently shared across all of Mercia's digital channels and are curated for ease of access on the newly expanded section of Mercia's website, The Hub
- The portfolio NPS improved by +18 year-on-year.

s172 statement

Outcomes of long-term decisions

The Group understands that in setting out to deliver on its new strategy, Mercia 2.0, it needs to recognise that this has to be achieved with a focus on responsible investment.

See p11

Looking out for our employees

The Directors recognise that Mercia's employees are fundamental and core to the business and delivery of its strategic ambitions. The success of the business depends on attracting, retaining and caring for our entire team.

See p24

Creating business relationships

Mutually beneficial relationships with shareholders, investors, investees, partners and suppliers are critical to delivering Mercia's strategy, and these have all developed within the framework of our values.

See p26

Impact of key company decisions

This aspect is most notable in [illegible] with [illegible] thriving businesses in the regions [illegible] on the ESG [illegible] responsible [illegible].

See p20

Maintaining high standards

Mercia aims to manage all its business dealings and engagements [illegible] values [illegible].

See p63

Acting fairly

The Directors always weigh up all the relevant factors before taking any decisions that affect the delivery of Mercia's strategy [illegible] long-term, taking into consideration the impact on stakeholders.

See p63

Our employees are our most valuable asset, located across 8 regional locations. It is each individual's experience, knowledge and specific skills that makes #OneMercia uniquely positioned to drive economic growth in the regions. The team's inherent understanding of local investment needs make Mercia one of the UK's most important domestic investors. The passion, dedication and abilities that our team bring to bear in supporting SMEs to achieve their potential is fundamental to the growth Mercia achieved this year.

Responsible business continued

People, culture and values

Mercia Heart

Extending outreach activity to include a means to support our team's mental wellbeing and resilience, Mercia Heart was launched to underline our commitment to always place our people at the heart of our business. Celebrating special occasions and holidays, Mercia Heart's programme of events, gifts and cross-group activities has been a sustained initiative that also has a more serious side to it. Mindful of the personal challenges and needs of many of our Mercia employees and families, Mercia now offers a comprehensive employee benefit package that includes a bespoke wellbeing and counselling service that offers weekly sessions, as required, for as long as they are needed. This is reinforced by a range of webinars and activities that provide both advice and support, as well as membership of the meditation app, Headspace – 40% of our team are active users.

Pragmatic care, in the form of COVID-19 testing for employees and their families, as well as the constant re-evaluation of the rapidly changing pandemic landscape, also brings peace of mind in these uncertain times.

Broadening our care beyond #OneMercia has continued this year even though lockdown challenged us to be more creative in our outreach. The Mercia Spirit team rose to the occasion raising money for Cancer Research UK through events designed for online engagement. A Silent Auction that took place with all items, holidays and experiences provided by employees was one such activity. At Christmas, our Secret Santa was extended to include some of those living rough on the street, further-supported by our clothing drive and coat collection. The photography competition encouraged our team to get away from their desks while working from home and capture their walks on camera. And no fundraising effort could do without the design and sale of Mercia caricature tea-towels.

Sadly, our Skills Builder Partnership could not continue during lockdown, but we look forward to reinstating this programme in the year ahead.

Michelle Heaselgrave, Head of People & Talent

8

Fundraising teams

Investing in people

Empowering #OneMercia

The strong culture that has our values at its core has been crucial as we transitioned to homeworking. The people that make up the fabric of our business were now working across c.100 different home-office locations and the key business imperative was to preserve #OneMercia and support continued collaboration and motivation throughout the team, vital to everyone. The creative outreach adopted to engender transparent and frequent communication included a range of well-designed and relevant activities, from the more formal weekly Group CEO 'all hands' Zoom meetings, to the light-hearted bi-weekly Friday Files, a people-focused newsletter, all crafted around the tenets of connectivity, trust and flexibility. The result was an empowered workforce evidenced in Mercia's best Employee Net Promotor Score ever received, increasing significantly on the previous year, scoring most positively in the areas of culture, work/life balance and enablement.

Courtney Yeoman,
Executive Assistant and Facilities Coordinator, Chair of Mercia Spirit

Growth, diversity and inclusion

In a time when we have seen many companies reducing headcount and freezing recruitment plans, we have continued to grow, and at pace. Over the period, we have attracted and settled 21 new permanent colleagues across the Group. We take great care to ensure that all employees are treated equally and given the same opportunities and access to training and professional development, regardless of age, gender, race, religion or belief, sexual orientation, disability or ethnic origin. We give a voice to our entire team and we listen to the views of everyone within Mercia. We appreciate the need to address the challenges that exist around attracting under-represented groups into the business, and this is an area that we will be focusing on during the year ahead. We will provide an update on progress in next year's Annual Report.

Learning and engagement

Throughout the year, Mercia provides continued professional development support supplemented with external training courses and webinars. These are either bespoke to an individual's needs, or open to the entire team and covering subjects that pertain to our own business areas or new peripheral topics that are either influential to our business or impacting our industry.

Our O2 group continues to give voice to a broader range of insights and ideas, providing a platform to engage with more diverse thinking and counsel, on topics that range from improved operational efficiencies to more cohesive employment engagement. A means to take the temperature of the business, this group cuts across the entire business, providing the opportunity to hear from team members that might otherwise not have the chance, or the confidence, to provide their point of view.

Our business model

Proving that the 'funds-first' model works for all

Complete • Connected • Capital

Third-party funds deliver future direct investments, attractive returns and underpin a progressive dividend policy. Our proprietary capital provides sustained growth.

Key strengths and differentiators

Finding value

The UK regions offer exciting deals with businesses that may be based locally, but have the potential to be globally recognised. Our investment team know where to find these thriving regional businesses often overlooked by other investors.

Experienced team

A rare combination of regionally located, highly experienced investment executives and operational specialists allows Mercia to source and structure investment opportunities that we scale with our overlapping funds and expertise.

Powerful partnerships

An enviable network of NXDs, subject experts and advisers that we trust, and importantly, trust us, leverages our 'trusted investment partner' reputation to help drive deal origination. In addition to helping Boards achieve optimal growth, our network works cohesively to offer best practice on how to grow a business that helps us strengthen our portfolios' resilience.

Capital resource

Mercia has c.£940million in AuM including c.£176million of net assets and c.£764million in FuM, of which there is c.£314million of unrestricted free cash to invest over the next two to five years.

Funds-first business model

Our proven hybrid business model supports businesses with discrete pools of capital that overlap and interconnect and are accessible to our portfolio when they need it. Delivering future direct investments, our third-party funds offer attractive returns for our investors and at the same time underpin a progressive dividend policy. Our balance sheet provides the growth capital.

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 investment at the right time.

Third-party funds

c.£764million in FuM to deploy into selective, high-growth SMEs across venture, private equity and debt.

Balance sheet capital

Mercia has £54.7million 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.

Stakeholder value creation

Investee companies

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

£0.4m

Initial average investment from venture

Third-party investors

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

10

Profitable exits

Employees

c.100 colleagues whose individual objectives, together with our values, drive Mercia's performance.

811

Training hours

Chief Investment Officer's review

Mercia has emerged stronger

Turn over to read Julian's full review.

"

It has to be said that many of the new ways of working, interacting, purchasing and consuming adopted during the pandemic, have made us more efficient and are here to stay as the bedrock of continued growth.

£37.0m

Cash received from four direct investment exits

Chief Investment Officer's review continued

Powered by people

I don't think any of us will forget the last 12 months. As I sit here in my home study, I can't help but think about the huge changes we have all been part of in our business and our way of life. I look forward to a return to 'normality', however, it has to be said that many of the new ways of working, interacting, purchasing and consuming, adopted during the pandemic, have made us more efficient and are here to stay as the bedrock of continued growth. We have witnessed fundamental changes to the way our healthcare is delivered and to the speed of development of medical solutions. We have become acutely aware of the rapid change towards a low-carbon environment, and within that, our social responsibilities to others.

Mercia has emerged from the last 12 months in a very strong position. We have transacted 10 profitable exits across our funds and proprietary capital, returning c.£103million. Three of these companies were also held as direct investments, providing liquidity of £37.0million for the Group, and in so doing, achieving our key aim of evergreening the direct portfolio. This is down to the excellent entrepreneurs and management teams we back and I would like to thank them all for their tremendous efforts this last year.

We have continued to invest to accelerate value creation; helping to build management teams by adding experienced chairs, non-executive directors, financial directors and venture partners, and by developing our network of like-minded co-investors. Our venture partners, funded by Mercia, provide short-term input for example, to redesign sales processes, fine-tune routes to market strategies or technology roadmaps.

We developed a digital engagement platform to enhance our origination efforts, including webinars and online sessions between founders and investment professionals. These will be a permanent feature of our business and a positive example of the applied learnings and structural changes arising from the pandemic. We have also undertaken comprehensive training for our investment staff.

Direct investments – four exits and value creation through operational progress

As at 31 March 2021, the value of the Group's direct investments was £96.2million (2020: £87.5million). This reflects an upward movement in fair value of £10.1million after net investment of £15.4million (2020: £15.7million) and adjusting for the four realisations: Crowd Reactive, The Native Antigen Company, Clear Review and OXGENE, which accounted for £15.9million of fair value as at 31 March 2020.

We recorded unrealised fair value gains in Voxpopme £1.6million, Impression Technologies £1.9million, Faradion £1.2million, MyHealthChecked £3.5million and Soccer Manager £0.2million, in line with our policy, which follows the International Private Equity and Venture Capital Valuations Guidelines ("IPEVCVG"). The fair value gains in Voxpopme relate to third-party investment and in Impression Technologies, to the acquisition of a co-investor's stake. Faradion's uplift results from third-party value indicators, and MyHealthChecked saw its share price increase as a result of significant commercial progress.

Automotive-related assets that saw reductions in March 2020 due to COVID-19, primarily Warwick Acoustics and Impression Technologies, are seeing renewed interest from original equipment manufacturers ("OEMs"). Eyoto has not yet seen a meaningful recovery and we have reduced its valuation by £0.4million, reflecting delays in Food and Drug Administration ("FDA") approval for its slit lamp product, with a consequent impact on revenues.

Investment activity

We continued to support our largest and most promising assets with capital and resource. £10.3million of the £15.4million invested was allocated to our top 10 assets. We also made use of the Future Fund, with a further £14.8million invested. Our aim remains to build equity stakes of between 20%–40% in the majority of our direct investments.

We made two new direct investments during the year: Sense Biodetection and MIP Diagnostics, both from our Enterprise Investment Scheme ("EIS") Funds.

MIP Diagnostics received initial investment of £0.3million as part of a £5.1million syndicated commitment resulting in a 3.3% direct stake in addition to the c.30% fully diluted stake held through our managed funds. MIP Diagnostics is a spinout from the University of Leicester, which has developed a proprietary process to provide molecular imprinted polymers to the Vitro Diagnostic, Bioprocessing and Oil and Gas industries. The company recently announced a partnership with Stream Bio to develop a rapid COVID-19 detection assay.

Sense Biodetection is focused on the development of instrument-free point-of-care molecular diagnostics. Post investment, we hold a 1.2% fully diluted direct investment in addition to a 9.1% fully diluted stake in our managed funds. In 2020, Sense Biodetection raised a $50.0million Series A round and announced an accelerated programme to launch an instrument-free, point-of-care molecular diagnostic test for COVID-19, partnering with Phillips-Medisize to scale up production.

Direct investments: operational highlights

nDreams, Voxpopme, Intechnica, Soccer Manager, VirtTrade, sureCore, Faradion, Medherant and W2 Global Data Solutions all achieved increased revenues during the year. Other measures of progress across the portfolio included new license deals at Impression Technologies, Medherant and sureCore, acquisitions at MyHealthChecked and Locate Bio, syndicated investment by Voxpopme and technical progress at Faradion, Locate Bio and Medherant. Highlights include:

- nDreams saw revenues up c.30% and continued strong partnerships with virtual reality ("VR") hardware providers. The VR market saw progression with the successful release of the Quest 2 headset from Oculus

4

Direct investment exits

- Medherant, the transdermal drug-delivery company secured an additional large pharma evaluation agreement and completed a syndicated investment round of £2.8million
- Intechnica's e-commerce consultancy business had a record year, and its Netacea bot management business continues to attract excellent reviews, blue-chip customers and increase its recurring revenue
- Soccer Manager, now in our top 10, benefited from new investment and focus showing c.40% revenue growth from its mobile football games and expects further growth from the launch of the 2022 season game.

Exits

We achieved four exits from our direct portfolio delivering £37.0million in cash receipts, alongside a further £17.1million in proceeds from these assets to our managed funds:

- The Native Antigen Company was sold to LGC, a global leader in the Life Sciences Tools sector, for £18.0million generating an 8.4x return on investment cost and a c.65% internal rate of return ("IRR") for our direct holding. Mercia first invested in The Native Antigen Company in 2011 through its third-party managed funds and from its balance sheet in December 2014. The sale generated a 12.1x return on a blended third-party managed funds investment cost and a c.31% funds IRR
- Clear Review was sold to Advanced Business Software and Solutions Limited for £26.0million representing a c.2x return on investment and a c.72% IRR. The sale also resulted in a c.8x return on Mercia's EIS managed fund investment cost and a c.122% fund IRR. Clear Review was first backed by Mercia's managed funds in 2018 before becoming a direct investment in June 2019
- In March we announced Mercia's largest exit to date from OXGENE that was sold to international Life Sciences group WuXi App Tec. Mercia held a 32.1% direct holding in OXGENE and received cash proceeds of £30.7million. The sale resulted in a realised gain of £18.0million above OXGENE's £12.7million direct investment holding value at the date of sale. The sale generated a c.5x return on Mercia's direct investment cost and a c.51% IRR. The sale also generated returns of between c.13x and c.20x return on Mercia's EIS managed fund investment costs
- We also exited Crowd Reactive through a partial repayment of our investment, realising the holding value of £0.2million as the pandemic brutally curtailed all activity in the events sector.

NAV growth across our funds led by the Northern VCTs

Our managed funds as at 31 March 2021 totalled c.£764million. In the year, we invested £79.0million in 173 businesses, including 76 new companies. Our third-party managed funds have all shown good performance in the second-half of the financial year with significant increases in Net Asset Value ("NAV").

At the end of the period, we had c.£314million of liquidity across all our funds and proprietary capital.

A total of seven profitable exits were completed in the year, delivering a total of £66.0million in returns to fund investors.

Mercia's debt funds team saw a significant uplift in enquiries in the year completing 70 transactions (2020: 46) and investing a total of £16.8million, of which £13.7million was provided to 48 new businesses. The Group announced an extension of its Northern Powerhouse Investment Fund ("NPIF") debt mandate, which was increased by a further £30.6million and Mercia's SME Loans Fund was launched in mid-September, providing up to a further £45.0million to lend over five years. This fund is backed by the Greater Manchester Pension Fund.

Our Northern Venture Capital Trusts ("VCT") showed NAV reductions of c.22% at March 2020, however this has now more than fully recovered, driven in large part by exits from Agilitas, It's All Good and the listing of musicMagpie, alongside significant growth in other assets including Oddbox, Currentbody.com and SHE Software.

Direct investment realisations since IPO to 31 March 2021

Chief Investment Officer's review continued

Agilitas delivers managed inventory solutions and services and is based in Nottingham. Mercia's Northern VCTs initially invested £6.4million in a management buyout and, over the next six years, backed the business' ambitious plans. Agilitas delivered double-digit annual growth through continued innovation and was sold to private equity investor Perwyn, providing a c.8x return.

Gateshead-based It's All Good, which makes snacks including the Manomasa range, was acquired by Valeo Foods Group in December 2020. Mercia's Northern VCTs first invested in February 2014. It's All Good was one of Alantra's Food & Beverage Fast 50 and one of the UK's fastest-growing privately owned food and drinks businesses.

Oddbox is a social impact business fighting food waste on farms by offering a fruit and vegetable box delivery service. Oddbox has a strong management team with significant experience from global brands. Mercia's Northern VCTs initially invested £2.0million in March 2020 to support growth outside of London.

The Northern VCTs completed 22 transactions, including investing in two new businesses, Enate and Moonshot, and 13 follow-on investments. Complete Connected Capital investments included Newcells Biotech alongside the North East Venture Fund ("NEVF"), Currentbody.com alongside Mercia's Debt Funds and Voxpopme, one of Mercia's direct investments that has also received investment from Mercia's EIS Funds.

Mercia's EIS funds completed 53 transactions across 21 businesses of which four were new. This was a strong year for EIS exits and with increased deal enquiries in Medtech, AI and Software as a Service ("SaaS") businesses reinforcing the dynamics seen across the Group with growth of these sectors strongly influenced by COVID-19.

NEVF invested in 11 companies, six of which were new. Newcells Biotech and Elmtronics are two purpose-led businesses that exemplify Mercia's investment agenda to support more businesses that have a viable business model and are aligned to the sustainability agenda. The strength of Mercia's networks can be seen in the co-investment into whocanfixmycar.com, which has an impressive external syndicate including Shell Ventures and Active PE.

In keeping with Mercia's stated policy of being a responsible investor, the entire Midlands Engine Investment Fund ("MEIF") portfolio falls within our stated guiding principles of sustainable economic growth and reducing inequalities in our communities. A key strand of this is to promote diversity and inclusion and we have three female-led companies in the portfolio and two with ethnically diverse founding-management teams. MEIF has a number of purpose-led investments falling under the banner of 'health and well-being for all', encompassing not only Life Science companies, but also those with an environmental focus. MEIF made six new investments this year within 22 transactions in total.

NPIF Equity invested £23.0million into 50 companies of which 20 were new to the portfolio. Growth within the portfolio was seen in the Digital, Life Sciences and Software sectors. NPIF co-investment included Mercia's direct investments Intechnica, Faradion and Soccer Manager that all traded strongly during the pandemic. New portfolio businesses that benefited both in terms of NPIF investment and from the experience of Mercia's investment team and support structures to leverage the changing consumer and business demand were: The Logically, that identifies misinformation online using AI and expert analysts, SockMonkey Studios, an award-winning gaming studio that works on top titles across all major platforms and Bubo.AI, the only AI-driven solution for a customer value-based pricing strategy for wholesalers and distributors. Both SockMonkey Studios and Bubo.AI are Teesside-based and epitomise Mercia's capability of finding and investing in thriving regional businesses.

Post period events

Post year end we invested £0.5million in Medherant alongside current co-investors, including our managed funds to continue commercial progress, and £0.3million in Eyoto as it progresses its FDA approval process.

Following initial investment through the Northern VCTs in 2015, musicMagpie launched its £208.0million IPO on AIM in April 2021. Upon IPO, our three Northern VCT holdings were valued at £51.7million, of which half was immediately realised in cash and the unrealised portion held in shares. The total amount invested into musicMagpie via the Northern VCTs was £4.5million. The total return was 11.6x, with an internal rate of return of 58%.

As announced on 23 June 2021, strong FuM portfolio performances during the year have triggered net performance fees of £3.8million.

Summary and looking forward

As Chief Investment Officer it is important to step back and look at the sustainable themes, steering our investment toward the areas where we see longer-term structural changes and growth.

We believe that businesses will continue to look at their own efficiency and security and we have seen a real focus on sales, business development and supply chains, to the health and safety of staff. We have significant exposure to these areas across our portfolios.

We see continued opportunity in Digital, Healthcare and Digital Gaming. We expect a continued move to remote data-based healthcare, and have recently invested in Naitive Technologies, an early-stage business exposed to this trend.

Our e-commerce businesses prospered over the last year with Northern VCT assets musicMagpie, Currentbody.com and Oddbox showing rapid growth and we continue to believe that these areas will do well.

Within our Deep Tech and Manufacturing assets, we are well positioned for the 'Electric Revolution' having invested in this area for the last 10 years. While Warwick Acoustics and Impression Technologies were initially impacted by the pandemic, the 2030 ban on new petrol and diesel cars has created significant opportunities. Elmtronics from NEVF is an installer of electric charging points and progressing well, as is Midlands-based Acceleron, which enables individual battery cells to be replaced as charge efficiency drops.

This reporting year has demonstrated the resilience of our business and our people and I would like to thank all my great team members at #OneMercia for their efforts over this last extraordinary year. I am very optimistic for our portfolio companies of which we now have c.430 assets, with significant liquidity to make new fund investments and direct investments. I am confident that we will continue to grow in the new financial year.

Julian Viggars
Chief Investment Officer

Our portfolio

Discovering opportunities

Realised value
A year of remarkable ups and downs culminated on 1 March 2021, when Mercia announced the sale of OXGENE for a substantial realised gain against holding value.

£15.4m

Invested into direct portfolio

Mercia investments

Angela Warner
Managing Director,
Mercia Investments

Mercia's national Enterprise Investment Scheme ("EIS") funds and Northern Venture Capital Trusts ("VCT") plus our regionally focused institutional venture funds, provide the lifeblood for Mercia's direct investment activity, where we invest cash from our own balance sheet into selected businesses looking to scale their growth. Our aim is to build and/or maintain meaningful equity stakes in these assets, whilst also happily working alongside third-party capital.

This Complete Connected Capital model allows Mercia to get to know businesses and management teams over an extended period and offers comfort to those fledgling businesses that deeper capital resource is available to support their journey. We provide time for early-stage businesses to hone their business model and, in some cases, wait for the market to develop. This can be seen in the direct investment portfolio where approximately half of the investee companies have been in the portfolio for at least five years and we are now seeing profitable exits coming to the fore with The Native Antigen Company, Clear Review and OXGENE all completed in the year to 31 March 2021.

In our successful response to the impact of COVID-19, we have demonstrated our ability to help businesses in times of uncertainty with our well-capitalised and permanent balance sheet. Using our considerable in-house resource and sectorial expertise, we put measures in place to support our direct portfolio businesses that went far beyond just shoring them up in the short-term. Recognising that the pandemic was accelerating existing trends as well as giving rise to new trends, we worked closely with our portfolio businesses to ensure that they transitioned stronger by being able to capitalise on the opportunities both in the post-COVID landscape and in the emerging Environmental, Social and Governance ("ESG") climate.

Software businesses, such as Intechnica with its Netacea product and Voxpopme's video customer feedback platform, have benefited from the impact of COVID-19 on e-commerce, with clients strengthening website security at the same time as maintaining valuable and rapid contact with consumers. Gaming businesses Soccer Manager and VirtTrade also saw uplifts in activity as more people moved to mobile gaming during lockdown. In addition, virtual reality headsets saw increased demand, which bodes well for nDreams that remains at the forefront of VR gaming.

In addition, businesses that helped meet the challenges of improving sustainability; light-weighting, energy storage and efficiencies such as Impression Technologies, Warwick Acoustics and Faradion are gaining real traction and inbound interest.

We will continue to consult and understand the challenges and ambitions of all our stakeholders in seeking sustainable growth from the investments that we are involved in and we will integrate ESG considerations into our selection and investment processes. Our guiding principles will, however, remain the same; to strengthen the competitive positioning of our portfolio companies by focusing on areas that fundamentally improve cost models, operations and customer interactions, whilst continuing to improve on our track record in the growth and realisation of these businesses, to drive investor and shareholder value.

Our portfolio continued

Diversified investment

The Native Antigen Company ("NAC")
NAC was sold to LGC, a global leader in the Life Sciences Tools sector, for £18.0million generating an 8.4x return on investment cost and a 65% IRR for our direct holding.

£53.3m

VCT and EIS liquidity

EIS and VCT Funds

Peter Dines
Chief Operating Officer,
Mercia EIS and VCT Funds

An indication of the growing success of the integration of the Northern VCT's investment team into Mercia is demonstrated by the joint investment opportunities that are now gaining traction.

Mercia's Enterprise Investment Scheme ("EIS") funds and Northern Venture Capital Trust ("VCTs") allow us to participate in more Series A and Series B investment rounds. These overlapping pools of capital underpin our Complete Connected Capital model that offers investment ingenuity that is a balance of capital and experience from a highly entrepreneurial investment team.

It has been a very successful year for both our EIS and Northern VCT portfolios, predominantly in the Life Sciences and Software sectors, showcased by our EIS investments The Native Antigen Company and OXGENE, with the Northern VCT businesses, Agilitas and, post period end, musicMagpie delivering excellent investment returns. Apart from the realised gains generated, what is crucial about these transactions is that they reaffirm the significant opportunity and value-creation potential of promising companies located in the UK's regions.

The three Northern VCTs typically invest in parallel and have been amongst the top performing VCTs over the last 10 years, with 55 investments, 10 of which are AIM-listed. Remaining a generalist investor ensures that we are not restricted to narrow verticals, and as a result, are able to attract a range of diverse businesses such as CurrentBody.com and Pure Pet Food, business that are purpose-led and that have been able to fuel their growth with our support and investment capabilities. It is pleasing to be able to provide early investment into fledgling regional businesses that have big ambitions.

This past year's successes have precipitated a robust year of fund raising for our EIS Funds and, combined with the investment capacity of the three Northern VCTs, will go a long way to ensuring that Mercia remains the most active regional investor in the UK, as well as one of the UK's most active venture capital firms in 2020 and 2021, according to Beauhurst.com. The many financial returns produced this year have highlighted and validated our investment model and we are proud to be one of the few firms to return more money to investors than raised in the last year, emphasising that regional investment and returns can be sustainable.

Our portfolio continued

Realising ambitions

The future of health
Life Sciences will continue to be pivotal in the global quest for diagnostics, personalised medicines and healthcare procedures.

c.£237m

Total amount invested in portfolio businesses

Regional Venture Funds

Will Clark
Managing Director,
Mercia Regional Venture Funds

There is no doubt that our investment into regional businesses, regardless of sector or industry, slowed at the start of the financial year.

Although there is an easing of the restrictions around the pandemic, challenges remain and we anticipate some further volatility as many of the stimulus packages cease and the debt which some businesses have accumulated impede growth. However, the regions have always been resilient and the agility of SMEs mean that both issues and opportunities can be responded to quickly, especially when they have the support of the type of capital solutions and experience that Mercia offers. There are certainly sectors where good value exists as a result of the pandemic and others that feature the structural growth dynamics, including sustainability, that make them great investment opportunities.

We are continuing to see interesting innovation in E-commerce and Cyber, as well as new technologies in the low-carbon economy and, of course, Life Sciences will continue to be pivotal in the global quest for diagnostics, personalised medicines and healthcare procedures.

Our ever-capable investment team comprises individuals who are passionately focused on their local markets. This, together with the long-term resilience of our business model, alongside high-quality service provision, continues to attract what is now becoming known as a 'Mercia deal'. Thriving, ambitious local businesses with a driven management team that want to integrate sustainable investment as part of their own business model, are reflected in Mercia's regional venture portfolio and fit perfectly with our direct investment strategy.

Our portfolio continued

Building great regional businesses

Responsible investor
Our origin and focus is to invest exclusively in the UK, targeting what we term as 'Thriving Regional Businesses'.

c.£314m

Total liquidity

Private Equity Funds

Wayne Thomas
Managing Director,
Mercia Private Equity Funds

The UK has been a challenging place for private equity investment over the past year.

At the onset of the pandemic our immediate focus was to stabilise our existing portfolio but, as the year progressed into H2, we turned our attention to sourcing new investment opportunities and developing a strong pipeline for the year ahead. We will continue to focus on addressing the short-term needs of our portfolio businesses, liquidity, the impact on the workforce as well as supply chain and operational disruption.

We have always worked closely with our portfolio businesses. These long-term relationships support our SMEs in identifying areas for operational improvement. The experience and talent resource we also provide helps drive increased efficiencies to ensure that these businesses reach critical mass. Our ability to add this level of value to our portfolio has been significant during the financial year. This hands-on approach is aligned with the interests of our limited partners, who have the same appetite for developing strong relationships and has proven successful, as seen by the resilience of our portfolio that have all navigated the last year positively.

The effect of COVID-19 and the geopolitical uncertainty of the last year has undoubtedly had a diffuse impact on private equity investing, the long-term consequences of which are still to be fully understood. However, the last year has afforded us a renewed appreciation of the role of private equity as a driver of growth in regional employment and the type of businesses and management teams that will deliver sustainable success in post-pandemic markets. Equally, we are well positioned to capitalise on our ability to leverage deals through our strong liquidity and Complete Connected Capital model, so we look ahead to the new year with confidence.

Our portfolio continued

Flexible finance

CBILS accredited
The Group's debt funds division became CBILS accredited, leading to a significant increase in the number of loan applications.

c.£17m

Regional debt invested

Debt Funds

Paul Taberner
Managing Director,
Mercia Debt Funds

At the start of Mercia's last financial year, regional SMEs feared for their very survival. We were inundated with requests for capital repayment holidays ("CRH") as businesses sought to preserve cash as they stared down the barrel of lockdown.

Many of our portfolio businesses were able to access the Coronavirus Business Interruption Loan Scheme ("CBILS") that Mercia's Northern Powerhouse Investment Fund ("NPIF") was accredited in July 2020 to deliver, on behalf of the British Business Bank ("BBB"). The Group also launched a new Mercia SME Loan fund, in partnership with Greater Manchester Pension Fund. This fund not only demonstrates our commitment to provide sustained support to UK SMEs, allowing them to focus on business recovery, but this new capital could also play an important role in supporting a sustainable economic growth trajectory by funding investment into innovation and productivity activities across the regions.

Notwithstanding the huge uplift in loan applications, levels that in the second half increased almost four-fold compared to the previous year, the debt team also supported the wider investment team in equity investment opportunities.

With over c.£100million of debt funds under management ("FuM"), the role that these funds can play in backing SMEs has a much wider impact than simply providing finance in the form of a standalone loan. Over the last six months, the debt funds have supported our venture teams by providing debt finance to the wider venture portfolio. This close partnership is something we see often across the Group, with many examples of collaboration to support the portfolio.

This cooperative model, known as our Complete Connected Capital, also strengthens our position in the market by offering a wider range of funding and investment options than typically provided. Using complementary pools of capital means that we get to see more deals than would otherwise be the case. Crucially, debt finance can play a critical role in supporting recovery and a strong rebound for SMEs and by offering the right capital, at the right time, to companies we invest in, we underpin Mercia's role as a true partner rather than just an investor, to support the regional UK economy as it emerges from the pandemic.

Chief Financial Officer's review

Record results and accelerating momentum

Turn over to read Martin's full review.

£34.0m
Profit/(loss) before taxation
2020: £17.6m loss

£176.0m
Net assets
2020: £141.5m

40.0p
Net assets per share
2020: 32.1p

£54.7m
Unrestricted cash*
2020: £30.2m

“Notwithstanding the worrying times for everyone during the past year, these results show that it is now an exciting period for all Mercia stakeholders.

Martin Glanfield
Chief Financial Officer

Chief Financial Officer's review continued

Despite the challenging health and economic backdrop, the year to 31 March 2021 was one of significant strategic and profitable progress for Mercia Asset Management PLC. Furthermore, the Group's financial performance was achieved without having to apply for any Government-backed financial support, delay any payments to HMRC or suppliers, impose any pay cuts or make any of our valued staff redundant as a result of the pandemic.

Trading performance

The financial year comprised four very distinct quarters, in terms of the impact of the pandemic on the Group's operating performance and thus both its interim and full year results.

In the first quarter to 30 June 2020 Mercia was, like the rest of the United Kingdom, in lockdown. With the three Northern VCTs having already announced net asset value write downs averaging 22% as at 31 March 2020, Mercia experienced lower asset price linked VCT fund management revenues as a direct consequence. From an investment portfolio perspective, new deal flow (and with it initial management fee revenue) largely ceased across all asset classes and Mercia's focus immediately switched to preserving value within the portfolios and supporting investee management teams. Where deemed appropriate, director monitoring fees were deferred and loan repayment holidays were granted on a case-by-case basis. With all staff working from home and no face-to-face meetings permitted, the Group's expenditure immediately reduced. The challenge of recruiting new staff remotely also had an immediate impact on both timing and cost. During this challenging quarter for the whole UK economy, the Group exited its investment in Crowd Reactive at its holding value of £0.2million.

In the second quarter to 30 September 2020, the revenue and cost dynamics of Mercia's 'new normal' stabilised. Whilst revenues continued below previously anticipated levels, Mercia's cost base also remained materially lower than budgeted. Remote working continued to impact both deal flow and recruitment timing. More broadly, portfolio sector growth trends began to emerge, funding strategies for each of Mercia's portfolio companies were determined and the fair value of the vast majority of the Group's funds and balance sheet assets showed promising signs of stability and in some cases, recovery. The Group's debt funds division became Coronavirus Business Interruption Loan Scheme ("CBILS") accredited, leading to a significant increase in the number of loan applications. The Group's consolidated interim results, which included a full six months' contribution from its December 2019 VCT fund management acquisition, reflected a satisfactory first-half performance with lower costs more than offsetting the relatively subdued revenues. Throughout the first six months, Mercia's staff worked tirelessly to support the Group's c.430 investees and each other. Towards the end of the second quarter, signs of recovering momentum across the Group became evident as Mercia's timely digital marketing pivot gained traction, with greater focus on social media 'Complete Connected Capital' brand awareness campaigns, alongside the increasingly popular 'Meet the Funder' virtual events. The second quarter's performance was enhanced by the Group's profitable exit from The Native Antigen Company, ultimately realising a gain in excess of holding value of £1.8million.

In the third quarter to 31 December 2020, asset price linked VCT fund management revenues recovered to their pre-pandemic levels and investment activity picked up in earnest, although the timing of the recovery in investment momentum differed, asset class by asset class. Director monitoring fees from investees, which had either been deferred or provisioned against during the first half year, started to be paid with initial management fee income also increasing quarter on quarter. Whilst the Group's overhead cost base remained largely flat, recruitment efforts in earlier months began to bear fruit. Sector by sector, growth trajectories started to become clearer. For those sectors showing the fastest growth trends (in particular Life Sciences, Software and Digital Gaming), asset values and interest grew in Mercia's most exciting investee companies. Although held for less than two years as a direct investment, the Group accepted a full offer for Clear Review, resulting in a realised gain in excess of holding value of £0.5million.

During the final quarter of the financial year to 31 March 2021, Mercia's long-held potential emerged. Revenues fully recovered, helped in part by elevated investment activity towards the tax year end, deal flow increased further as Mercia's marketing pivot bore fruit, long-running recruitment efforts succeeded in attracting new talent into the Group and the excellent continuing work of all staff, still mainly working remotely, helped maintain its operational efficiency and leverage. A year of remarkable ups and downs culminated on 1 March 2021, when Mercia announced the sale of OXGENE for a substantial realised gain over holding value. The Group subsequently provided a positive trading update which included guidance on a much higher year end closing cash position.

The more detailed financial analysis which follows therefore only tells part of the story of what was a breakthrough year for Mercia.

Adjusted operating profit – alternative performance measure ("APM")

The Group has always believed that the measurement and reporting of the difference between its revenues and total operating costs, excluding realised gains on disposal of investments, unrealised fair value movements, one-off items and non-cash charges, is an important APM of interest to shareholders.

On 1 April 2020, the Group adopted 'adjusted operating profit' as a more generally recognised APM for specialist asset managers, compared to its historic 'net revenues' APM. Adjusted operating profit is defined as operating profit before performance fees net of variable compensation, realised gains on disposal of investments, fair value movements in investments, share-based payments charge, depreciation, amortisation of intangible assets, movement in fair value of contingent consideration and exceptional items.

From Mercia's perspective and for comparison purposes, the difference between the historic measurement of net revenues and adjusted operating profit, is that the latter includes net finance income and excludes depreciation.

Results reported on an APM basis are denoted by [1] throughout this review. The table below provides a bridge between the two APMs for the years ended 31 March 2021 and 2020.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Revenue[1]	**19,186**	12,747
Administrative expenses[1]	**(15,897)**	(12,449)
Depreciation	**(212)**	(212)
Net revenues	**3,077**	86
Depreciation	**212**	212
Net finance income	**48**	220
Adjusted operating profit	**3,337**	518

The Directors believe that the reporting of adjusted operating profit assists in providing a consistent measure of operating performance, excluding distortions which can be caused by the reconciling items set out below for both the current and comparative years.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Adjusted operating profit	**3,337**	518
Performance fees (gross)	**4,224**	-
Variable compensation attributable to performance fees	**(445)**	-
Performance fees net of costs	**3,779**	-
Adjusted operating profit including performance fees net of costs	**7,116**	518
Depreciation	**(212)**	(212)
Net finance income	**(48)**	(220)
Realised gains on disposal of investments	**20,251**	-
Fair value movements in investments	**10,088**	(15,844)
Share-based payments charge	**(543)**	(528)
Amortisation of intangible assets	**(2,317)**	(852)
Movement in fair value of contingent consideration	**(365)**	-
Operating profit/(loss) before exceptional items	**33,970**	(17,138)
Exceptional items	**-**	(695)
Operating profit/(loss)	**33,970**	(17,833)

A reconciliation of results reported on an APM basis to International Financial Reporting Standards ("IFRS") is as follows:

	Year ended 31 March 2021				Year ended 31 March 2020		
	APM basis £'000	Performance fees £'000	Depreciation £'000	IFRS as reported £'000	APM basis[1] £'000	Depreciation £'000	IFRS as reported £'000
Revenue	**19,186**	**4,224**	**-**	**23,410**	12,747	-	12,747
Administrative expenses	**(15,897)**	**(445)**	**(212)**	**(16,554)**	(12,449)	(212)	(12,661)
Depreciation	**(212)**	**-**	**212**	**-**	(212)	212	-

Chief Financial Officer's review continued

Revenue
Revenue[1] increased 50.5% to £19,186,000 (2020: £12,747,000) and comprised fund management related fees, initial management fees from investment rounds, investment director monitoring fees and sundry business services income. The majority of the increase was due to the first full-year contribution from the Northern Venture Capital Trust ("VCT") fund management business, which was acquired in December 2019.

Administrative expenses
Administrative expenses[1], excluding depreciation, increased 25.6% to £15,897,000 (2020: £12,661,000) and comprised predominantly staff-related, office, marketing and professional adviser costs. The majority of the increase was also due to the first full-year incremental operating costs of the acquired VCT fund management business. The increase was lower than might otherwise have been expected due to the pandemic's impact on the time taken to recruit additional budgeted staff across the Group's activities, as well as travel-related and other cost savings arising from the prolonged working from home requirements.

As Mercia's assets under management grow and the financial benefits of operational leverage continue to be realised, the Group will ensure that an appropriate balance is kept between its investment expertise and its support functions' capacity and capability, to maintain its control environment and corporate governance culture.

Net finance income
Gross finance income of £68,000 (2020: £246,000) comprised interest earned on the Group's cash and short-term liquidity investments, in addition to interest received on loans to direct portfolio companies which converted into equity instruments during the year. Finance costs of £20,000 (2020: £26,000) comprised interest payable on office leases.

Performance fees and attributable variable compensation
Performance fees and 'house' carried interest can become receivable from certain of the Group's fund management mandates, when pre-determined performance hurdles are exceeded. In the case of the Group's EIS funds, where performance hurdles are exceeded and a performance fee is receivable, a bonus scheme is in place predominantly for those staff involved in the raising, investment and administration of each EIS fund. Performance fees totalling £635,000 (2020: £nil) became receivable from four of the Group's EIS funds during the year, as the investment returns each exceeded their performance hurdle. Attributable staff bonuses (including employer's National Insurance) totalled £325,000 (2020: £nil).

During the year, a performance fee totalling £284,000 (2020: £nil) was received from Northern Venture Trust PLC based upon the growth in its net asset value per share above a hurdle for the year to 30 September 2020. As at 31 March 2021, performance fees totalling £3,305,000 (2020: £nil) became payable from Northern 2 VCT PLC and Northern 3 VCT PLC. Incremental VCT investment team bonuses (including employer's National Insurance) totalling £120,000 have also been accrued (2020: £nil).

Adjusted operating profit excluding net performance fees increased by £2,819,000 to £3,337,000 (2020: £518,000) largely, although not exclusively, as a result of the overall first full year contribution of the acquired VCT fund management business.

Realised gains on disposal of investments
During the year, realised gains totalling £20,251,000 (2020: £nil) arose on the disposal of The Native Antigen Company, Clear Review and OXGENE.

On 9 July 2020, Mercia announced the profitable sale of The Native Antigen Company followed by, on 19 October 2020, the profitable sale of Clear Review. The Group recognised realised gains of £1,755,000 and £543,000 respectively.

On 1 March 2021, Mercia successfully delivered the strategic objective of 'evergreening' its balance sheet through the profitable sale of OXGENE realising £30,696,000, crystallising a total realised gain for the year as a whole of £17,953,000. This realisation generated a 5x return on Mercia's direct investment cost of £6,129,000 and a 51% internal rate of return.

The Group also disposed of its investment in Crowd Reactive during the year, recovering its £150,000 holding value.

Fair value movements in investments

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of investments	**10,773**	3,351
Unrealised losses on the revaluation of investments	**(685)**	(19,195)
Net fair value movement	**10,088**	(15,844)

Net fair value increases during the year totalled £10,088,000 (2020: £15,844,000 decrease) and as at 31 March 2021, the fair value of the Group's direct investment portfolio was £96,220,000 (2020: £87,471,000). For the year as a whole, unrealised fair value gains arose in 11 (2020: four) out of the Group's 23 (2020: 25) direct investments. The largest fair value gain was in respect of MyHealthChecked, which accounted for £3,509,000 of the total (2020: £1,582,000 fair value gain in respect of OXGENE). There were four (2020: 10) fair value decreases, the largest being £439,000 which arose in respect of Eyoto (2020: £5,313,000 fair value decrease for Warwick Acoustics).

Share-based payments charge

The £543,000 non-cash charge (2020: £528,000) arises from the net increase in the total number of issued share options held by employees throughout the Group, ranging from 28 August 2018 to 31 March 2021.

Amortisation of intangible assets

The amortisation charge for the period of £2,317,000 (2020: £852,000) represents amortisation of the acquired intangible assets of both Enterprise Ventures Group Limited ("Enterprise Ventures") and the VCT fund management business. The Enterprise Ventures intangible asset is now fully amortised.

Movement in fair value of contingent consideration

The VCT fund management total purchase price has a number of contingent consideration elements payable over a three-year period. The total contingent consideration was fair valued at the date of acquisition. The charge to the income statement represents the unwinding of the discount on the first contingent consideration payment made in December 2020 (2020: £nil).

Taxation

The components of the Group's tax credit are shown in note 11 to the consolidated financial statements. The Group continues to utilise those historic trading losses which are available to set off against current year taxable profits. The overall tax credit comprises the unwinding of the deferred tax liability in respect of both the Enterprise Ventures and VCT fund management acquisitions. The Enterprise Ventures deferred tax liability was fully unwound in the year to 31 March 2021.

Total comprehensive profit for the year

The adjusted operating profit, net performance fees, realised gains made on the sale of The Native Antigen Company, Clear Review and OXGENE, together with net fair value increases for the year, all contributed favourably to a record consolidated total comprehensive profit of £34,458,000 (2020: £17,454,000 loss), resulting in basic earnings per Ordinary share of 7.83 pence (2020: 5.11 pence loss per share).

Dividends

The profitable and operating cash generative first-half performance, together with its future prospects, enabled Mercia to declare and pay a maiden interim dividend of 0.1 pence per share; a landmark moment in the Group's evolution as a proactive, regionally focused, specialist asset manager. The even stronger second-half performance now enables Mercia's Board to recommend a proposed final dividend of 0.3 pence per share. If approved by shareholders at September 2021's Annual General Meeting, the total first year dividend will represent a yield of approximately 1% (2020: nil).

Balance sheet and cash flows

Net assets as at 31 March 2021 of £176,021,000 (2020: £141,460,000) were predominantly made up of goodwill, acquired VCT fund management contract-related intangible assets, the direct investment portfolio and unrestricted cash. The Group continues to have limited working capital needs due to the nature of its business and generated net operating cash inflow of £5.6million (2020: £0.3million net inflow).

Intangible assets

Details of the Group's intangible assets are given in notes 15 and 16 to the consolidated financial statements, and consist of goodwill and intangible assets recognised on the acquisitions of Mercia Fund Management Limited, Enterprise Ventures and the VCT fund management business.

Direct investment portfolio

During the year under review, Mercia's direct investment portfolio grew from £87,471,000 as at 1 April 2020 (2020: 1 April 2019 £87,659,000) to £96,220,000 as at 31 March 2021 (2020: 87,471,000), a 10% increase notwithstanding the significant cash realisations achieved during the year.

The Group invested £15,397,000 net (2020: £15,656,000) into 17 existing and two new direct investments (2020: 17 and one respectively). The quantum of direct investment activity seen in the second half of the financial year was lower than the first half, as the majority of the direct portfolio are sufficiently well funded through to at least the end of 2021.

Chief Financial Officer's review continued

The table below lists the Group's top 20 direct investments by fair value as at 31 March 2021, including a breakdown of the net cash invested during the period, investment realisations, realised gains, net fair value movements and the fully diluted equity percentage of each company invested in at the year end. The Group's top 20 direct investments represent 98.5% of the total direct investment portfolio value (2020: 98.3%).

	Year of first direct investment	Net investment value as at 1 April 2020 £'000	Net cash invested year to 31 March 2021 £'000	Investment realisations year to 31 March 2021 £'000	Realised gains year to 31 March 2021 £'000	Fair value movement year to 31 March 2021 £'000	Net investment value as at 31 March 2021 £'000	Percentage held as at 31 March 2021 %
nDreams Ltd	2014	16,120	1,000	–	–	606	**17,726**	35.4
Intechnica Group Ltd	2017	7,177	1,250	–	–	1,569	**9,996**	27.5
Voxpopme Ltd	2018	6,030	1,191	–	–	1,624	**8,845**	17.6
Impression Technologies Ltd	2015	4,294	2,401	–	–	1,927	**8,622**	67.3
Medherant Ltd	2016	6,705	1,400	–	–	–	**8,105**	29.0
Faradion Ltd	2017	4,025	500	–	–	1,168	**5,693**	15.6
Ton UK Ltd t/a Intelligent Positioning	2015	4,354	750	–	–	(191)	**4,913**	29.9
MyHealthChecked plc	2016	475	504	–	–	3,509	**4,488**	14.6
Warwick Acoustics Ltd	2014	3,656	500	–	–	99	**4,255**	35.8
Soccer Manager Ltd	2015	2,534	775	–	–	244	**3,553**	39.0
Locate Bio Ltd	2018	2,250	750	–	–	6	**3,006**	16.7
VirtTrade Ltd t/a Avid Games	2015	2,200	615	–	–	(3)	**2,812**	20.3
sureCore Ltd	2016	2,167	250	–	–	–	**2,417**	22.0
PsiOxus Therapeutics Ltd	2015	2,193	250	–	–	(36)	**2,407**	1.4
Edge Case Games Ltd	2015	2,300	–	–	–	–	**2,300**	21.2
W2 Global Data Solutions Ltd	2018	2,000	300	–	–	–	**2,300**	16.3
Eyoto Group Ltd	2017	1,752	500	–	–	(439)	**1,813**	15.7
Sense Biodetection Ltd	2020	–	945	–	–	–	**945**	1.2
MIP Diagnostics Ltd	2020	–	300	–	–	2	**302**	3.3
LM Technologies Ltd	2015	250	–	–	–	–	**250**	47.4
Oxford Genetics Ltd t/a OXGENE	2015	11,743	1,000	(30,696)	17,953	–	**–**	–
The Native Antigen Company Ltd	2014	3,493	–	(5,248)	1,755	–	**–**	–
Clear Review Ltd	2019	500	–	(1,043)	543	–	**–**	–
Other direct investments	n/a	1,253	216	–	–	3	**1,472**	n/a
Total		**87,471**	**15,397**	**(36,987)**	**20,251**	**10,088**	**96,220**	n/a

Cash and short-term liquidity investments

At the year end, Mercia had cash and short-term liquidity investments totalling £54,725,000 (2020: £30,186,000) comprising cash of £54,491,000 (2020: £23,971,000) and short-term liquidity investments of £234,000 (2020: £6,215,000). The Group also separately held £2,484,000 (2020: £467,000) 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, corporate 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 2021 £'000	Year ended 31 March 2020 £'000
Opening cash and short-term liquidity investments	**30,186**	29,769
Net cash generated from operating activities	**5,611**	298
Purchase of fund management contracts – deferred consideration	**(2,100)**	(12,400)
Net cash generated/(used) in direct and other investing activities	**21,606**	(15,456)
Issue of new Ordinary shares	**–**	30,000
Ordinary share capital issue costs	**–**	(1,879)
Dividend paid	**(440)**	–
Net cash used in financing activities	**(138)**	(146)
Cash and short-term liquidity investments at the year end	**54,725**	30,186

Net assets

Net assets at the year end were £176,021,000 (2020: £141,460,000), resulting in net assets per share of 40.0 pence (being net assets of £176,021,000 divided by 440,109,707 shares in issue) (2020: 32.1 pence, being net assets of £141,460,000 divided by 440,109,707 shares in issue).

Outlook

It has been a year of many financial twists and turns for Mercia. These record results are a credit to everyone involved in the activities of the Group and just reward for our many patient and loyal shareholders. The Group's second-half momentum and profitable trading has continued into the first few months of the new financial year.

Venture investing does take time to produce positive results, but the three profitable cash exits from the direct investment portfolio during the year to 31 March 2021 demonstrate the potential for continuing incremental shareholder value creation. Taken together, the Group's growing trading profitability and positive operating net cash inflow underpin our recently established progressive dividend policy.

Notwithstanding the worrying times for everyone during the past year, these results show that it is now an exciting period for all Mercia stakeholders.

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 and uncertainties 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 actions 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 cyber, regulatory, competitor, legal, force majeure and specifically, the current COVID-19 pandemic risks

Operational – including internal systems and controls, people and talent, 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 or 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 the Group's principal risks are managed to an acceptable level, whilst acknowledging that the specialist asset management sectors in which Mercia operates have investment risk inherent within them. Mercia's risk framework is therefore constructed to identify and navigate downside risks, whilst seeking to take advantage of upside risk, particularly when investing in young companies.

The risks associated with the COVID-19 pandemic have remained the highest priority during the year, given the range of potential impacts on our staff and portfolio companies. Staff welfare has been of paramount importance and we have deployed a range of tools to help maintain staff engagement whilst working at home. With the success of the vaccine programme and the phased exit from the latest lock down period, we are embracing a gradual return to office working whilst continuing to take precautionary measures. Similarly, we have had a strong focus on our portfolio companies, providing support in the form of topical webinars etc. whilst monitoring and supporting their funding requirements and helping to source additional management expertise where needed.

We have continued to build on the opportunities for synergies across our funds landscape and on effective recruitment and talent management, to ensure we mitigate the risk of losing key staff. We have maintained our focus on regulatory risk and having successfully implemented the Senior Managers and Certification Regime. We continue to monitor the regulatory landscape with the Financial Conduct Authority ("FCA") proposing capital changes, as well as potential additional measures in relation to the promotion of higher risk investments.

A third-party supplier risk has been added to our risk register in acknowledgement of our impending change of custodian for our Enterprise Investment Scheme ("EIS") funds, as well as the future planned move to a depositary arrangement in compliance with our continued growth in funds under management ("FuM"). We have also captured the risk of failure to fully embrace the Environmental, Social and Governance ("ESG") agenda and have appointed Jill Williams, Investment Director, to lead our awareness and mitigation in respect of this increasingly important risk.

The Group's Compliance Director reports on the current risks being monitored and new or emerging risks to each meeting of the Board. Operational level monitoring is conducted through the Senior Leadership Team and immediately escalated to the Executive Team when appropriate.

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

Rosie Bhattacharjee
Group Compliance Director

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.** **Potential impact on portfolio companies individually, leading to failures and loss of revenues and shareholder value as a consequence.**	Staff welfare issues, due to direct illness, family illness and or bereavement. Potential mental health impacts due to isolation, lack of available support from friends and family, impacts on family life and education. Resultant impact on the operational efficiency of the Group. Risk to the valuation of funds and Venture Capital Trust ("VCT") portfolios managed by Mercia regulated entities, as well as general market pressures impacting on direct investment fair values. Increased risk of portfolio valuation reductions and/or failures, and the 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's existing investment in IT systems and connectivity allowed staff to move seamlessly to remote working and for operational activities to continue. The COVID-19 working group has continued to meet regularly and monitor the gradual unlocking and return to the office environment. Staff welfare is kept high on the agenda of the Executive Team with morale being maintained using Zoom and Slack for meetings, social interaction and to support information sharing. Staff have been provided with opportunities for antibody and virus testing prior to more widespread testing being in place and have been offered free counselling for any mental health issues arising during lockdown. Mercia has recognised the impact of staff juggling work and childcare including home schooling and has supported staff with a culture of trust and flexibility, to which our staff have responded by continuing to deliver our priorities and objectives. Portfolio valuations have remained under regular review and fair values amended where required. We have organised briefings and webinars to assist portfolio companies and have made use of existing forums such as a Mercia Slack channel, exclusively for portfolio company chief executive officers ("CEOs"). We have assisted firms through our non-executive director network to strengthen boards and increase resilience to difficult trading conditions. In general, investee company valuations are now recovering and asset price linked revenues have increased as a direct result. We have drawn on our networks and worked across funds, using technology to facilitate meetings to maintain deal flow.
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 cybercrime attempts and reports from portfolio companies has increased in the wake of COVID-19.**	Cyber 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 cyber security 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 security breach. The Group has implemented Office 365 which, combined with the use of SharePoint, has enhanced its ability to securely store and share data. Business continuity plans and disaster recovery contingencies are tested and have proved to be effective to support remote working during the COVID-19 related lockdown. The Group continues to work with its cyber security consultants to periodically test its cyber defences. Regular testing is conducted through using fake phishing/spam emails to test staff awareness of identifying suspicious emails and promptly escalating. Our IT providers have enhanced their utilisation of software patches when issued so that upgrades are made immediately, which increases resilience. Darktrace technology is installed to monitor spam filters and also to monitor network activity by internal users, such as downloading data, thereby alerting senior management to any suspicious activity.

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
The Group may not be able to continue to retain or attract experienced, skilled and successful Board Directors, investment professionals and support staff.	The Group depends on the experience, skill and judgement of 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. The Group offers balanced and competitive remuneration packages to all its staff, overseen by the Remuneration Committee, including the potential to receive performance-related bonuses and share options. The Committee periodically undertakes benchmarking reviews via external remuneration consultants, the most recent being in December 2020 to monitor and adjust, where appropriate, the Group's overall remuneration, to remain competitive. Staff welfare has been a high priority during the pandemic and our teams have risen to the challenges presented to them, allowing us to continue to operate and grow. We continue to be successful in recruiting the highest possible quality candidates and the agile working environment in which we operate is another key factor in our successful recruitment and retention of staff. Performance management systems are in place to monitor progress against objectives and development milestones, as well as core values. We have a broad training offering covering core matters, such as regulatory requirements, technical training for investment teams, as well as personal skills development, whilst also focusing on management roles during the financial year to continue to drive high-performing teams. We maintain staff engagement and have continued to do so despite the COVID-19 restrictions, through monthly investment team meetings and a weekly 'all hands' call with our Chief Executive Officer and other members of the Senior Leadership Team. Our annual staff survey results are evaluated by the Senior Leadership Team and any issues or areas of concern, as well as proposals from staff, are escalated to the Executive Team. Mercia has grown a strong pool of talent, reducing the overall impact of any single leaver.
Tax efficient investments may fail to meet the criteria for HMRC clearance, either at the outset or on a continuing basis, due to a lack of internal controls or awareness and diligence by staff undertaking such investments, or responsible for ensuring the eligibility criteria are met.	EIS and SEIS investments may be declared to be outside the regulations and the tax advantages would be lost for that investment and Mercia may suffer complaints and reputational damage. VCT investments may be found not to qualify or may not continue to meet the qualifying criteria, on an ongoing basis, resulting in the entire VCT trust losing its tax status, with a consequential impact on investors, reputational damage and complaints.	Prior to any investment, the EIS/SEIS team undertake the necessary checks and research and may refer to professional advisers for specialist qualifying advice. The team then monitor the ongoing eligibility criteria of all EIS investments. For proposed VCT investments, due diligence is commissioned at the outset and prior to actual investment, by the investment team obtaining a report from external VCT tax advisers. There is also an ongoing monitoring of all VCT investments to ensure no investment breaches the qualifying criteria. Possible risks are further mitigated by the regulatory investment periods for the EIS, SEIS funds raised and the ability to declare special dividends to return money to VCT investors if necessary, to prevent a breach of the VCT investment period rules. Mercia's compliance function undertakes internal audit monitoring of investment files to ensure initial due diligence has been undertaken and that advanced assurance clearance has been obtained from HMRC where necessary.

Risk	Possible consequences	Mitigation
Mercia subsidiaries may cease to be authorised by the FCA, resulting in them being unable to continue fund management activities.	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. Nor would Mercia be able to tender for further mandates. In those circumstances, 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 always acts fairly 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 maintains its position as regards the Alternative Investment Fund Managers Directive ("AIFMD"), in respect of the quantum of funds under management and is preparing to apply for full scope authorisation. The Board receives regular reports from the Group's Compliance Director as to regulatory developments and the possible impact on the Group, including any measures required to comply. 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, 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. Mercia also has a whistleblowing policy and reporting structure in place. No whistleblowing reports have been received in the year.
The risk of reputational damage due to third-party custodian services not being provided as required or being withdrawn or our due diligence on a third party being inadequate.	The majority of our EIS/SEIS investors' assets are held by an external custodian and such custodian services may be withdrawn under the contractual arrangements. There are risks with all third-party suppliers and an associated risk with sourcing an acceptable alternative, ensuring that the transfer is completed appropriately to minimise disruption to investors and reputational risk and with ensuring that our regulatory obligations for due diligence are adequately undertaken and documented, prior to any new appointments.	The appointment of an external custodian requires detailed due diligence from both a commercial and a regulatory perspective. This is undertaken by the EIS team and overseen by the Chief Financial Officer and Group Compliance Director. Commercial terms are reviewed by the Group's in-house legal counsel. Mercia Fund Management Limited, as fund manager for the EIS/SEIS funds, is subject to full regulatory scrutiny and an annual Client Assets audit, which is undertaken by external auditors who review our arrangements. Following a decision by the Group's current custodian to discontinue providing its range of services, due diligence on potential replacement candidates concluded that the custodian Mainspring Fund Services, would be an appropriate successor. Detailed planning for the changeover is now in hand. Communications with EIS/SEIS investors is also being undertaken to ensure minimum disruption during the changeover.
The Group now has c.£764 million of FuM 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 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 to fund limited partners. Investment committees provide a robust review of all proposed investments and ensure that investments meet the mandate of the fund and that any conflicts are managed appropriately. The Group's compliance function monitors adherence to investment procedures through its internal audit reviews, which also monitor adherence to regulatory requirements. The Board oversees the Group's fund management operations, performance and client relations.

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
The Group, including its fund management subsidiaries and Mercia's portfolio companies are subject to competition risk.	The Group operates both a direct investment and a fund management portfolio model and both may find themselves in competition when new investment or lending opportunities arise. In addition, all portfolio businesses are predominantly focused on the technology sector, which is intensely competitive on a global scale. Portfolio companies' competitors may 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 all portfolio companies, with a potential knock-on effect on fund management and director monitoring fees as well as impacts on direct investment performance.	The Group focuses its investment activities predominantly on the historically under-served 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 conducts all of its investment activities in a fair and transparent manner and is increasingly recognised as a trusted investment partner for entrepreneurially minded, ambitious management teams. The Group's fund management entities have maintained a strong performance against their institutional mandates, including with British Business Bank. Portfolio company competitiveness is monitored and additional support and expertise is provided when required.
The risk that conflicts of interest are not properly identified and managed, leading to reputational damage, loss of mandates and loss of investment.	The presence of conflicts of interest is inherent in our business model, deriving from the range of different fund management mandates and direct investment activities undertaken. There is potential for reputational risk arising from a failure to appropriately manage conflicts. Reputational damage could lead to an inability to attract new mandates, and/or portfolio companies for investment, leading to a drop in deal flow and revenues	A comprehensive conflicts policy has been developed to deal with conflicts that arise, particularly in investment mandates or follow-on investment in an existing investee company In addition, the Group always carefully considers the conflicts that may arise where Mercia holds investments in more than one portfolio company with a similar product or service business model. The separate fund and balance sheet investment committees consider any potential conflicts highlighted with individual investments on a case by case basis. The policy also deals with potential conflict situations arising with staff, for example, working for investee companies or holding shares. A register of conflicts is maintained and overseen by the Group's Compliance Director.
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. Growth rates in the Digital Gaming industry have accelerated due to the greater proportion of time being spent at home.**	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.	The Group's current direct investments have all originated from the Group's fund management operations. Those 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 supported further. In addition, the 'real-time' due diligence is being undertaken by the Group's investment teams during an investee company's early stage of development within the Group's funds. This means that Mercia is already familiar with the business, its commercial prospects and its management team before it becomes a 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. The strength of the Group's financial position means that we have been able to give greater funding runway to companies, where this is appropriate, and to offer support during the pandemic. In addition, our ability to source high-quality non-executive directors to assist company boards increases their resilience and helps in protecting long term value.

Risk	Possible consequences	Mitigation
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 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 could have a materially detrimental effect on the overall value of the Group's investment portfolio and greater skew fair value concentration into a smaller number of companies. Currently, the top five direct investments represent 55.4% of the total portfolio by value.	The Group seeks to balance the total portfolio by sector quantum and value, as the total number of direct investments and their values grow over time. Notwithstanding several successful exits during the year, the current portfolio continues to be well-balanced. Concentration risk is further mitigated by the increased resources available to assess and monitor direct investments and by the fact that the overall portfolio is maturing with failures less likely to occur. The balance sheet is an evergreen investment vehicle and can support firms for longer, where appropriate. As well as the Group's increasing investment team talent, Mercia has focused its attention on strengthening investee company boards through its non-executive director network and venture partners, further protecting against investee failures.
The United Kingdom's exit from the European Union may impact upon both the Group and its portfolio companies.	European trade barriers, tariffs and border controls may impact portfolio company growth prospects. Portfolio companies may find hiring and retaining non-UK resident, highly skilled staff more difficult.	The Group focuses on sectors that largely operate without national barriers. Many of the Group's direct investments have a global target customer base, not just European. The Group has sufficient funds under management and balance sheet capital to exercise investment and operational flexibility to support its portfolio companies.

Events after the balance sheet date

Other than the continuing completion of approved direct investments and the reporting of performance fees payable to Mercia as at 31 March 2021 by two of the Northern VCTs, there have been no other material events since the balance sheet date.

Approval

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

Dr Mark Payton
Chief Executive Officer
5 July 2021

Board of Directors

Right skills, right experience, right people

Dr Mark Payton
Chief Executive Officer

Date of appointment
December 2014

Experience
Mark has extensive 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 of 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.£95.0million, 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. He became Mercia's 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.

Board diversity
Tenure

0-2 years Members	1
3-5 years Members	3
6-10 years Members	4

Board diversity
Gender

Male Members	6
Female Members	2

Diane Seymour-Williams
Senior Independent Director

Date of appointment
November 2020

Experience
Diane is a non-executive director of Standard Life Private Equity Trust plc, PraxisIFM Group Limited and SEI Investments (Europe) Ltd and is a director of Acorn Capital Advisers Limited. Most recently, Diane was also a non-executive director of Brooks Macdonald Group Plc. serving a nine-year tenure Diane has significant industry experience, having worked at Deutsche Asset Management Group (previously Morgan Grenfell) for over 23 years where she held various senior positions, including CIO and CEO for Asia.

Diane subsequently spent nine years at LGM Investments Limited, a specialist global emerging and frontier markets equities manager, where she was global head of relationship management. Her non-executive experience spans the quoted wealth and asset management, global equity, private equity, investment services and VCT sectors. She is a pro-bono member of the Investment Committees of Newnham College, Cambridge and the Canal & River Trust.

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 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 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.

Board composition
Independence

Executive	
Members	3
Non-executive	
Members	5

Meetings
Attendance (Total 9)

Executive	
Dr Mark Payton	9
Martin Glanfield	9
Julian Viggars	9
Non-executive	
Ian Metcalfe	9
Ray Chamberlain	9
Dr Jonathan Pell	9
Caroline Plumb OBE	9
Diane Seymour-Williams	3

Committees
Membership

Audit & Risk
Remuneration
Nomination

Directors' report

The Directors present their Annual Report and the audited financial statements of Mercia Asset Management PLC for the year ended 31 March 2021.

Results and dividends

The profit for the year was £34,458,000 (2020: £17,454,000 loss). An interim dividend of 0.1 pence per share was paid on 30 December 2020 at a cost of £0.4 million. In accordance with the progressive dividend policy adopted by the Board, the Directors recommend the payment of a final dividend of 0.3 pence per share for the year ended 31 March 2021 (2020: nil). If approved by shareholders at the Annual General Meeting, the final dividend will be paid on 12 October 2021 to shareholders on the register on 24 September 2021.

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 57 which forms part of this report by cross reference.

Directors

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

Ian Roland Metcalfe
Dr Mark Andrew Payton
Martin James Glanfield
Julian George Viggars
Diane Seymour-Williams (appointed on 3 November 2020)
Raymond Kenneth Chamberlain
Dr Jonathan David Pell
Caroline Bayantai Plumb OBE

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 72.

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 30 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2021, 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]	39,272,336	8.9
Ruffer LLP	30,690,000	7.0
Librae Holdings Limited	28,208,528	6.4
Forward Nominees Limited[1]	21,801,208	5.0
NVM Private Equity LLP UK	16,800,000	3.8
Ninety One	16,363,845	3.7
Chelverton Asset Management	15,000,000	3.4
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 2021, the Group made no political donations (2020: £nil).

Employees

The Group employed an average of 99 (2020: 91) 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 24, 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 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
During the year ended 31 March 2021, the Audit and Risk Committee led a competitive audit tender process. Following due consideration, the Board resolved to appoint the Audit Committee's recommended candidate, BDO LLP, which replaced Deloitte LLP as the auditor of the Group. In accordance with section 519 of the Companies Act 2006, Deloitte LLP deposited with the Company a statement confirming that there were no matters connected with it ceasing to hold office that needed to be brought to the attention of members or creditors of the Company.

BDO 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
5 July 2021

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

Sarah-Louise Thawley
Group General Counsel & Company Secretary

Date of appointment
July 2020

Experience
Sarah joined the Group as Head of Legal in October 2018 and was promoted to Group General Counsel & Company Secretary in July 2020. She is responsible for providing legal advice across the Group and the portfolio and managing the Group's relationship with external legal advisers, as well as performing the role of Company Secretary. Sarah is based at the Henley-in-Arden office.

Sarah qualified as a corporate solicitor in 2007 and has extensive experience in all aspects of corporate transactional and advisory legal work. In her previous role at Shoosmiths LLP, she specialised in mergers and acquisitions, venture and growth capital transactions, MBOs, MBIs, and corporate governance advice.

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 year. Under that law the Directors have prepared the Group financial statements in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the Directors are required to:

- 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 of IAS in conformity with the requirements of the Companies Act 2006 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 profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the 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 5 July 2021 and signed on its behalf by:

Dr Mark Payton	**Martin Glanfield**
Chief Executive Officer	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 importantly, 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 gatherings, both formal and informal, to elicit feedback and gauge how our values are being maintained throughout the business.

Finally, from an external perspective, Mercia seeks to operate as a socially responsible employer and has adopted standards and policies which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct that business in line with applicable established best practice. The Group takes a zero-tolerance approach to bribery and corruption and has enacted procedures to prevent bribery. All employees within Mercia who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher updates.

The Directors recognise the importance of sound corporate governance. We remain committed to delivering the long-term success of the Group through an effective framework of leadership, management and controls. During this year we appointed Jill Williams, Investment Director, as Head of Environmental, Social and Governance ("ESG"). Jill has been instrumental in the codification of our existing values and considered approach to responsible investment. Our ESG policy sits at the heart of our Group operations. 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 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 Board believes that it operates in an open and constructive manner and works effectively. In November 2020, we appointed Diane Seymour-Williams to the Board. Diane has an asset management background and particular experience of Venture Capital Trusts. Diane has settled in quickly and started making a positive contribution immediately. In recognition of her deep asset management expertise and experience, she has recently been appointed Senior Independent Director.

Brief biographies of the Directors and their relevant experience are set out on pages 58 and 59. Their membership of committees is set out on pages 64 and 65.

Corporate governance report continued

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 14.8% 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, was appointed to undertake the externally facilitated review after a tender exercise. BHL has not provided any other service to the Company since.

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, including, as an example, the appointment of Diane Seymour-Williams as an additional Non-executive Director with significant asset management experience.

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 2021 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	3/3	4/4	3/3
Dr Mark Payton	9/9	3/3[1]	3/4[1]	1/3[1]
Martin Glanfield	9/9	3/3[1]	4/4[1]	3/3[1]
Julian Viggars	9/9	2/3[1]	–	–
Ray Chamberlain	9/9	–	–	–
Dr Jonathan Pell	9/9	3/3	4/4	3/3
Caroline Plumb OBE	9/9	3/3	4/4	3/3
Diane Seymour-Williams[2]	3/9	–	1/4[1]	1/3[1]

1 Attended by invitation.
2 Diane Seymour-Williams was appointed on 3 November 2020

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 68 to 72 of this Annual Report. The Chief Financial Officer attends all Committee meetings as Committee secretary.

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.

Throughout the year, the Committee comprised Ian Metcalfe as Chair, Dr Jonathan Pell and Caroline Plumb OBE. The Nominations Committee met three times formally during the year and having led the search, recommended the appointment of Diane Seymour-Williams.

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 Client Assets Sourcebook ("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.

During the year the Committee's specific areas of focus were:
- Leading the audit tender process and recommending the appointment of BDO LLP as the Group's new auditor;
- Closely monitoring the changing risk profile of the Group during the pandemic and the mitigating actions being taken by the Executives;
- The maintenance of the internal control environment during prolonged periods of remote working, with a specific focus on all FCA permissions related internal controls.

The Committee Chair also maintained a regular dialogue with the Chief Financial Officer, to maintain current awareness of all financial, audit and risk related matters.

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.

Throughout the year, the Committee comprised Dr Jonathan Pell as Chair, Ian Metcalfe and Caroline Plumb OBE. 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 57 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 on occasion 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 23 and 63 of this Annual Report and the AIM Rule 26 section of the Group's website

Corporate governance report continued

	Governance principles	Compliant	Explanation	Further reading
	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 and how seriously the Group takes its Environmental, Social and Governance responsibilities.	Pages 18 to 21 of this Annual Report and the AIM Rule 26 section of the Group's website
	4. Embed effective risk management, considering both opportunities and threats throughout the organisation	✔	The Group's approach to risk management together with the principal risks and uncertainties applicable to Mercia, their possible consequences and mitigation are set out in the Principal Risks and Uncertainties section of this Annual Report. The Board reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified – 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 57 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 63 to 65 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 (e.g. 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 58 and 59 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 64 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 2020/21 and 2021/22 include Mercia's cultural values.	Pages 20 to 25 of this Annual Report and the AIM Rule 26 section of the Group's website

	Governance principles	Compliant	Explanation	Further reading
	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 Mercia's website.	Pages 63 to 65 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 23 and 63 to 65 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 custodial 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 www.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 14 September 2021.

Ian R. Metcalfe
Non-executive Chair
5 July 2021

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. The remuneration of the Chair is a matter for the Board. No Director is involved in any decision as to his or her own remuneration.

For the year to 31 March 2021, the Remuneration 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 four times, with all meetings being fully attended, and on other occasions on an 'as required' basis.

Remuneration policy

The Remuneration Committee believes that the success of the Group depends 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 ones of which are to achieve incremental shareholder value over the medium term through successful investment in, and subsequent exit from, technology-based companies, as well as growth of the Group's assets under management.

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-determined and largely financial objectives. For Executive Directors, the main elements of the remuneration package are base salary, an annual performance-related bonus scheme and participation in the Group's long-term share option scheme, carried interest and performance plans. Other benefits include employer contributions to a defined contribution personal pension scheme, life assurance, private health insurance and permanent health insurance. Only base salaries are pensionable.

In the Group's earlier stages of its development, there was a natural tension between 'affordability' and the need to 'attract and retain talent' in 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 and the Group's own objective of sustained long-term capital growth. The external consultants also benchmarked the then existing remuneration packages against a defined comparator group.

The review outputs, which were endorsed by the Committee at that time and in subsequent years, included a recommendation that the Group adopt a policy of active remuneration review which was event rather than time-driven, i.e. moving from net expenses to net revenues or growing the value of the direct investment portfolio above an agreed annual target. The historically agreed remuneration parameters were:

- 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 early stage of development
- Annual bonuses – the review recommended that maximum bonuses of up to 100% of base salary should be capable of being earned for exceptional performance. The review also suggested that the Committee should consider apportioning an element of bonus awards into some form of deferred Mercia shares
- 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. The review 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 to adopt this policy, to be reviewed annually.

The Committee continued to adopt these recommendations as the Group's performance-focused remuneration policy up to 31 March 2021. Having agreed to a maximum bonus of up to 100% of base salary for exceptional performance in the year to 31 March 2021, the Committee determined that any bonus award would be payable in cash up to 50% of base salary with the remainder in a form of deferred Mercia shares. The agreed criteria for determining the ultimate award were:

1. Total shareholder return – 45% weighting
2. Funds under management performance – 30% weighting
3. Environmental, Social and Governance ("ESG") progress, high-performing teams and Mercia core values – 25% weighting.

In determining the bonus payable for the year to 31 March 2021, the Committee first noted that the Group's financial performance was achieved without having to apply for any Government-backed financial support, delay any payments to HMRC or suppliers, impose any pay cuts or make any of its valued staff redundant as a result of the pandemic.

Having considered the record financial performance of the Group and the successful leadership of the Executive Directors against each of the above criteria, the Committee awarded bonuses to each Executive Director at 98% of their base salary for the year to 31 March 2021. Of the total, 50% of each bonus has been paid in cash with the balance of 48% in deferred shares, settled in cash, with the net payment receivable by the Executive Directors applied by purchasing shares in Mercia, which will be held for a minimum of one year.

Given the significant progress that the Group had now made, in December 2020 the Committee commissioned a new external remuneration review. The remuneration consultants were asked to consider short and long-term remuneration structures for the Group's senior executive team, as well as a number of other senior investment roles.

Existing base salaries, which had not been increased in 2020, were reviewed against a listed peer group and were found to be below the lower quartile for that group. After careful consideration, the Committee unanimously agreed to increase the base salary of the Chief Executive Officer by 15% and the Chief Financial and Chief Investment Officers by 10%. Their new annual salaries from 1 April 2021 are shown below. No changes were recommended to existing bonus and benefits policies, but the review also recommended the introduction of a new Executive 'performance share plan' linked to total shareholder return. A new long-term incentive plan has therefore been introduced in the current financial year, with effect from 1 April 2021.

The Committee has agreed to a maximum bonus of 100% of base salary for exceptional performance in the year to 31 March 2022, with the bonus award payable in cash up to 50% of base salary and the remainder in a form of deferred shares. The agreed criteria for determining the ultimate award are:

1. Total shareholder return – 45% weighting
2. Funds under management performance – 30% weighting
3. ESG 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	270	6 months
Martin Glanfield	15 December 2014	220	6 months
Julian Viggars	17 April 2018	220	6 months
Ian Metcalfe	15 December 2014	83	3 months
Diane Seymour-Williams	3 November 2020	48	3 months
Ray Chamberlain	15 December 2014	40	3 months
Dr Jonathan Pell	22 December 2017	46	3 months
Caroline Plumb OBE	12 June 2018	40	3 months

A review of Non-executive Director remuneration was also undertaken during the recruitment of Diane Seymour-Williams. From 1 April 2021 the following Non-executive Director annual salary bandings were approved by the full Board:

- Chair – £83,000
- Senior Independent Director – £47,500
- Committee Chair – £46,000
- Non-executive Director – £40,000.

These salary bandings will apply for the foreseeable future.

Equity-based incentive schemes

The Committee has implemented a number of long-term incentive and retention 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 Mercia CSOP.

Remuneration report continued

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 or an employee leaves before the third anniversary, those options lapse.

In the year to 31 March 2021, options were granted to the Executive Directors and a number of staff. The total number of options in issue at 31 March 2021 was 20,784,140 (2020: 15,700,140).

The Mercia Carried Interest Plans ("CIPs")

Mercia Asset Management operates CIPs 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 ran 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 to AIM in December 2014 and those new direct investments made in the post Initial Public Offering ("IPO") period leading up to the implementation of the CIP on 1 August 2015.

Directors' remuneration

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

	Salaries payable		Pension contributions		Taxable benefits		Performance related bonus[2]		Total	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Executive Directors										
Dr Mark Payton	**235**	235	**26**	26	**2**	2	**230**	78	**493**	341
Martin Glanfield	**200**	200	**22**	22	**3**	3	**196**	66	**421**	291
Julian Viggars	**200**	200	**22**	22	**2**	2	**196**	66	**420**	290
Non-executive Directors										
Ian Metcalfe	**75**	68	**–**	–	**–**	–	**–**	–	**75**	68
Ray Chamberlain	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Dr Jonathan Pell	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Caroline Plumb OBE	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Diane Seymour-Williams[1]	**17**	–	**–**	–	**–**	–	**–**	–	**17**	–
Susan Searle	**–**	38	**–**	–	**–**	–	**–**	–	**–**	38
	847	861	**70**	70	**7**	7	**622**	210	**1,546**	1,148

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 Diane Seymour-Williams was appointed as a Non-executive Director on 3 November 2020
2 Excludes amounts payable under the Mercia Fund Management Phantom Carried Interest Plans.

Mercia Fund Management Phantom Carried Interest Plans ("MFM Plan")

The Group's wholly owned subsidiary, Mercia Fund Management Limited ("MFM") raises annual Enterprise Investment Scheme ("EIS") funds. The fee structure for each fund includes a performance incentive. MFM is entitled to a performance incentive equivalent to 20% of the return achieved by each fund over a hurdle of £1.05 per £1.00 invested in qualifying companies. If a super hurdle is achieved of more than £1.30 per £1.00 invested, then MFM is entitled to a performance incentive equivalent to 30% of the return achieved by each fund over this super hurdle. Since 1 August 2015, MFM has adopted an MFM Plan for each EIS fund raised. The purpose of the MFM Plan is to incentivise and retain those Mercia employees directly involved in the raising, investment, realisation and administration of each EIS fund. Up to 45% of any receipts by MFM under the performance incentives for each fund raised, is payable as a bonus to those staff. During the year, following successful exits from The Native Antigen Company and OXGENE, four EIS funds achieved their performance incentive hurdles and MFM received performance fees totalling £635,090.

The aggregate amounts payable under the four MFM Plans to the Executive Directors who are members of those plans for the year ended 31 March 2021, are set out below and directly reflect the contribution made by each Executive Director to the successful performance of each of the four EIS funds:

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Executive Directors		
Dr Mark Payton	**143**	–
Martin Glanfield	**6**	–
Julian Viggars	**43**	–
	192	–

Calculations supporting the amounts payable under the MFM Plans have been independently verified prior to settlement.

Share options

The number of options over Mercia Asset Management's Ordinary shares held by Directors as at 31 March 2021 is set out below:

	Number of options				
	As at 31 March 2021	As at 31 March 2020	Date of grant	Exercise price	Period of exercise
Executive Directors					
Dr Mark Payton	–	400,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[1]
	400,000	400,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[2]
	946,502	946,502	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[3]
	1,880,000	–	21 Aug 2020	21.50p	21 Aug 2023 to 20 Aug 2030[4]
Martin Glanfield	–	400,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[1]
	400,000	400,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[2]
	823,045	823,045	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[3]
	1,600,000	–	21 Aug 2020	21.50p	21 Aug 2023 to 20 Aug 2030[4]
Julian Viggars	–	100,000	24 Jul 2017	36.00p	24 Jul 2020 to 23 Jul 2027[1]
	1,200,000	1,200,000	28 Aug 2018	30.80p	28 Aug 2021 to 27 Aug 2028[2]
	823,045	823,045	28 Jan 2020	24.30p	28 Jan 2023 to 27 Jan 2030[3]
	1,600,000	–	21 Aug 2020	21.50p	21 Aug 2023 to 20 Aug 2030[4]

1 The options, exercisable as to one-third from 24 July 2020, one-third from 24 July 2021 and the remaining one-third from 24 July 2022, lapsed during the year ended 31 March 2021.
2 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.
3 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.
4 The options will be exercisable as to one-third from 21 August 2023, one-third from 21 August 2024 and the remaining one-third from 21 August 2024, if the performance condition has been met.

Remuneration report continued

Directors' share interests

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 2021	Number of Ordinary shares as at 31 March 2020
Ian Metcalfe[2]	**242,609**	192,609
Dr Mark Payton[1]	**6,851,366**	6,799,653
Martin Glanfield[1,2]	**1,044,305**	716,972
Julian Viggars[1,2]	**686,385**	582,325
Ray Chamberlain[2,4,5]	**65,194,766**	64,824,766
Dr Jonathan Pell	**-**	–
Caroline Plumb OBE	**40,000**	40,000
Diane Seymour-Williams[3]	**250,000**	–

1 In July 2020 Dr Mark Payton, Martin Glanfield and Julian Viggars each increased their shareholding in Mercia Asset Management PLC by purchasing 51,713 shares, 155,838 shares and 51,150 shares respectively.

2 In September 2020 Ian Metcalfe, Martin Glanfield and Julian Viggars each increased their shareholding in Mercia Asset Management PLC by purchasing 50,000 shares, 171,495 shares and 52,910 shares respectively. Additionally, Forward Innovation Fund, an entity closely associated with Ray Chamberlain, acquired 1,200,000 shares in Mercia Asset Management PLC.

3 In March 2020 Diane Seymour-Williams, appointed to the Board as a Non-executive Director on 3 November 2020, purchased 250,000 shares in Mercia Asset Management PLC.

4 In March 2020 Forward Nominees Limited, an entity closely associated with Ray Chamberlain, reduced its shareholding in Mercia Asset Management PLC by 830,000 shares. The shares sold were not held personally by Ray Chamberlain.

5 Ray Chamberlain is indirectly interested in 65,134,766 Ordinary shares via the Forward Innovation Fund (39,272,336 Ordinary shares), Croftdawn Limited (3,994,786 Ordinary shares), Mercia Growth Nominees Limited (126,436 Ordinary shares) and Forward Nominees Limited (21,801,208 Ordinary shares as nominee for certain members of the Chamberlain family and close associates, including Ray Chamberlain.

Ian R. Metcalfe
Chair of the Remuneration Committee
5 July 2021

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mercia Asset Management PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company's Balance Sheets;
- the Consolidated and Company's Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the forecasted cash flows that support the Directors' assessment of going concern to check that they are in line with our expectations based on our understanding of the Group. Key assumptions include forecast direct investment, forecast revenues and investment realisations. These have been reviewed against current performance, availability of cash resources and the other stress tested scenarios;
- Evaluating management's method of assessing going concern in light of market volatility;
- Calculating financial ratios to consider the financial health of the Group and Parent Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

Overview

Coverage

97% of Group profit after tax
96% of Group revenue
99% of Group total assets

Key audit matters	2021
Valuation of Unquoted Investments	✓
Revenue Recognition	✓
Valuation of Goodwill and Intangible Assets	✓

Materiality

The materiality for the Group was set at £4,300,000 based on 2.5% of net assets.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements.

The scope of our Group audit included those Group entities which were deemed to be significant components as a result of their contribution to the material balances in the consolidated statement of comprehensive income and consolidated balance sheet of the Group. The significant components included Mercia Asset Management PLC (stand-alone); Mercia Fund Management Limited, Enterprise Ventures Limited and EV Business Loans Limited. The financial information of all significant components were subject to full scope audits with Mercia Investments Limited subject to specific procedures. All procedures were performed by the Group engagement team.

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, including 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.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue Recognition (Note 1 and 3 to the financial statements) Revenue is earned through the following ways: • Fund management fees, • Initial management fees, • Portfolio director' fees, • Share offer fees, • Performance fees, • Custodian fees and Business services fees (other revenue). There is a risk that fund management and performance fees are not calculated or recognised in accordance with the accounting policies and the relevant Limited Partnership Agreements or investment management agreements. In respect of initial management fees and portfolio directors' fees there is a risk that these are not recorded in the correct periods in accordance with the requirements of applicable accounting standards. In respect of share offer and custodian fees there is a risk that these are not correctly calculated. Due to the risks attaching to the various revenue streams, we considered revenue recognition to be a key audit matter	**Details** We have performed an assessment of the accounting treatments for the various revenue streams to check if these are in line with the requirements of the applicable accounting standards. A sample of fund management fees due from the limited partnerships were recalculated based on the underlying LPA agreements in place between the general partner and the fund. In relation to the Enterprise Investment Scheme funds, a sample of annual management fees, custodian fees and initial management fees from investors, were recalculated using the investment memorandums and commitments were agreed to custodian reports, where applicable. In relation to the fund management fees from the VCT funds, a recalculation was performed based on the NAV and applying the novation agreement principles. Initial management fees and portfolio director fees were sampled and agreed to the signed funding agreement to ensure they were recognised in the correct period All VCT share offering promotor fees were recalculated based on the approved issue of equity during the year and the underlying agreements in place. A sample of performance fees were recalculated based on the underlying agreement and agreed to invoice or subsequent receipt. We also confirmed that these were correctly accrued in the current period. **Key observations** Based on the procedures performed we consider that revenue has been recognised appropriately.

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

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of Unquoted investments (Note 1 and 19 to the financial statements) The share price valuation of the Group is driven in part by the value of the investments in the Consolidated Balance Sheet. There is a high level of estimation uncertainty involved in determining the valuation of the unquoted investments in the portfolio. Investments are also the most significant balance contributing to the Net Asset Value (NAV) of the group, and therefore may be subject to management bias.	**Details** For a sample of loans held at fair value we: • Agreed security held to supporting documentation • Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no significant movement in the market interest rate since acquisition and considering the "unit of account" concept • For the Convertible Loan Notes ("CLNs") we have challenged management on whether accrued interest should be included in the valuation of these on the basis of future recoverability For a sample of unquoted, we performed the following procedures where relevant: • Checked whether the valuation had been prepared by a suitably qualified individual • Considered whether a valid International Private Equity and Venture Capital Valuation ("IPEV") methodology had been adopted • Verified whether the valuation used up to date trading information We tested a sample of 85% of the unquoted investment portfolio by value of investment holdings. **Valuations based on cost/price of recent investment** For valuations based on cost or price of recent investment, we checked the recent investment to supporting documentation and, where relevant, reviewed the calibration of fair value using an alternative valuation methodology and considered the Investment Manager's determination of whether there were any reasons why the valuation and the valuation methodology was not appropriate at 31 March 2021. **Valuations based on indicative offers** For such investments we performed the following procedures for all investments within our sample: • Considered whether the valuation methodology is the most appropriate in the circumstances under the IPEV Guidelines • Checked the arithmetic accuracy of the investment valuations • Verified and benchmarked key inputs and estimates, i.e. the indicative offer to independent information **Valuations based on multiples** For such investments we performed the following procedures for all investments within our sample: • Considered whether the valuation methodology is the most appropriate in the circumstances under the IPEV Guidelines • Checked the arithmetic accuracy of the multiples-based investment valuations • Verified and benchmarked key inputs, and estimates, i.e. the multiples, to independent information such as broker supplied multiples **Key observations** Based on the procedures performed we consider the methodology and assumptions used by management to value the investments to be appropriate.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of Goodwill and Intangible Assets (Note 1 , 15 and 16 to the financial statements) The Group is required by applicable accounting standards to undertake an annual impairment review of all assets including goodwill. This assessment has been included as a key audit matter due to the significance of the goodwill and intangible assets balance at year-end and the level of management judgement inherent in the impairment assessment.	**Details** We have reviewed Management's impairment assessment of goodwill and intangible assets in accordance with the requirements of the applicable accounting standards. We have considered the key assumptions and judgements used in Management's qualitative assessment and whether these were appropriate and reasonable. These include, but not limited to, profitability of each CGU since inception, underlying management contracts and the investment track records. We corroborated each assumption to financial performance of each CGU and those of the underlying funds. For amounts recognised as goodwill, we have performed sensitivity analysis (annual cash burn, revenue growth sensitivities) to identify whether there is a suitable amount of headroom before the goodwill shows signs of potential impairment. In addition, we have assessed current year performance indicators against budgets i.e. profitability, revenue growth and other indicators such as cash on hand, net asset value to ascertain whether there were any signs of impairment. For the intangible asset, we have obtained Management's calculation (discounted cash flow) used to determine the fair value of the VCT Management Contracts at acquisition. We have assessed the appropriateness of management's assumptions used in the determination of the discount rate through benchmarking with similar comparable transactions. In assessing management's review of impairment indicators, we have performed a qualitative assessment of the performance of the VCT's over the last year based on the division's year to date results, inquiries with Management and inspection of Board Meeting Minutes. We have further assessed the forecasted cash flows used within the discounted cash flow against the actual and budgeted performance of the VCT's. **Key observations** Based on the work performed we did not identify any matters to suggest that management's impairment indicator assessment or carrying value of goodwill and intangible assets is inappropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements 2021	Parent Company financial statements 2021
Materiality	**£4,300,000**	**£3,800,000**
Basis for determining materiality	**2.5% of net assets**	**2.5% of net assets**
Rationale for the benchmark applied	In setting materiality, we have focused on the needs of the users of the financial statements and their interests which are likely to be more in the statement of financial position as the purpose of the Group is long-term shareholder value. Therefore net assets was considered to be the most appropriate benchmark as this is the ultimate value of the Group that shareholders would receive.	
Performance materiality	**£3,000,000**	**£2,600,000**
Basis for determining performance materiality	70% of materiality The level of performance materiality applied was set after having considered a number of factors including the level of transactions in the year and the fact that this is a first year audit.	

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

Component materiality
The audit of the Group and significant components were executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from £34,000 to £3,800,000. In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £187,500. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting
Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

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

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

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be compliance with Companies Act 2006, the FCA listing and DTR rules and the principles of the QCA Corporate Governance Code.

Our tests included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance; and
- review of minutes of board meetings throughout the year.

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our audit work focussed on revenue recognition, the valuation of unquoted investments and the valuation of goodwill and intangible assets, where the risk of material misstatement due to fraud is the greatest (refer to the Key Audit Matter section). We also:

- Obtained independent evidence to support the ownership of investments;
- Recalculated fund management fees in total; and
- Obtained independent confirmation of bank balances.

In addressing the risk of management override of internal controls we tested journals and evaluated whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

DocuSigned by:

Vanessa Bradley

Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5 July 2021

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

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Revenue	3	**23,410**	12,747
Administrative expenses		**(16,554)**	(12,661)
Realised gain on sale of direct investments	19	**20,251**	–
Fair value movements in direct investments	4	**10,088**	(15,844)
Share-based payments charge	6	**(543)**	(528)
Amortisation of intangible assets	16	**(2,317)**	(852)
Movement in fair value of deferred consideration	24	**(365)**	–
Operating profit/(loss) before exceptional items		**33,970**	(17,138)
Exceptional items	8	**–**	(695)
Operating profit/(loss)		**33,970**	(17,833)
Finance income	9	**68**	246
Finance expense	10	**(20)**	(26)
Profit/(loss) before taxation		**34,018**	(17,613)
Taxation	11	**440**	159
Profit/(loss) and total comprehensive income/(loss) for the year		**34,458**	(17,454)
Basic and diluted earnings/(loss) per Ordinary share (pence)	12	**7.83**	(5.11)

All results derive from continuing operations.

The notes on pages 84 to 109 are an integral part of these financial statements.

Consolidated balance sheet

As at 31 March 2021

	Note	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Assets			
Non-current assets			
Goodwill	15	**16,642**	16,642
Intangible assets	16	**17,746**	20,063
Property, plant and equipment	17	**107**	125
Right-of-use assets	18	**456**	598
Investments	19	**96,220**	87,471
Total non-current assets		**131,171**	124,899
Current assets			
Trade and other receivables	20	**4,060**	1,298
Restricted cash	21	**2,484**	467
Short-term liquidity investments	21	**234**	6,215
Cash and cash equivalents	21	**54,491**	23,971
Total current assets		**61,269**	31,951
Total assets		**192,440**	156,850
Current liabilities			
Trade and other payables	22	**(8,127)**	(4,805)
Lease liabilities	23	**(122)**	(118)
Deferred consideration	24	**(1,578)**	(1,736)
Total current liabilities		**(9,827)**	(6,659)
Non-current liabilities			
Lease liabilities	23	**(351)**	(473)
Deferred consideration	24	**(2,869)**	(4,446)
Deferred taxation	25	**(3,372)**	(3,812)
Total non-current liabilities		**(6,592)**	(8,731)
Total liabilities		**(16,419)**	(15,390)
Net assets		**176,021**	141,460
Equity			
Issued share capital	26	**4**	4
Share premium	27	**81,644**	81,644
Other distributable reserve	28	**69,560**	70,000
Retained earnings		**22,405**	(12,053)
Share-based payments reserve		**2,408**	1,865
Total equity		**176,021**	141,460

The notes on pages 84 to 109 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 80 to 109 were approved by the Board of Directors and authorised for issue on 5 July 2021. 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 2021

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Cash flows from operating activities:			
Operating profit/(loss)		**33,970**	(17,833)
Adjustments to reconcile operating profit/(loss) to net cash flows used in operating activities:			
Depreciation of property, plant and equipment	17	**70**	73
Depreciation of right-of-use assets	18	**142**	139
Gain on sale of direct investments	19	**(20,251)**	-
Fair value movements in direct investments	4	**(10,088)**	15,844
Share-based payments charge	6	**543**	528
Amortisation of intangible assets	16	**2,317**	852
Movement in fair value of contingent consideration	24	**365**	-
Working capital adjustments:			
Increase in trade and other receivables	20	**(2,762)**	(514)
Increase in trade and other payables	22	**1,305**	1,209
Net cash generated from operating activities		**5,611**	298
Cash flows from direct investment activities:			
Sale of direct investments	19	**36,987**	-
Purchase of direct investments	19	**(15,647)**	(17,449)
Investee company loan repayments	19	**250**	1,793
Net cash generated from/(used in) direct investment activities		**21,590**	(15,656)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	17	**(52)**	(45)
Investee company loan redemption premiums and interest received	9	**68**	245
Purchase of fund management contracts	24	**(2,100)**	(12,400)
Decrease/(increase) in short-term liquidity investments	21	**5,981**	(1,027)
Net cash generated from/(used in) other investing activities		**3,897**	(13,227)
Net cash generated from/(used in) total investing activities		**25,487**	(28,883)
Cash flows from financing activities:			
Dividend paid	13	**(440)**	-
Interest paid	10	**(20)**	(26)
Proceeds from the issue of Ordinary shares	26	**-**	30,000
Transaction costs relating to the issue of Ordinary shares	27	**-**	(1,879)
Payment of lease liabilities		**(118)**	(120)
Net cash (used in)/generated from financing activities		**(578)**	27,975
Net increase/(decrease) in cash and cash equivalents		**30,520**	(610)
Cash and cash equivalents at the beginning of the year		**23,971**	24,581
Cash and cash equivalents at the end of the year	21	**54,491**	23,971

Consolidated statement of changes in equity

For the year ended 31 March 2021

	Issued share capital (note 26) £'000	Share premium (note 27) £'000	Other distributable reserve (note 28) £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**34,458**	**–**	**34,458**
Dividend paid	**–**	**–**	**(440)**	**–**	**–**	**(440)**
Share-based payments charge	**–**	**–**	**–**	**–**	**543**	**543**
As at 31 March 2021	**4**	**81,644**	**69,560**	**22,405**	**2,408**	**176,021**

Notes to the consolidated financial statements

For the year ended 31 March 2021

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 traded 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.

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 2021, 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 Group Limited	04161494
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
EV Business Loans Group Limited	07110694
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 international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards ("IFRS"), and the applicable legal requirements of the Companies Act 2006.

The preparation of financial statements under IFRS 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 within the Group's accounting policies.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. These are described more fully below:

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

Going concern
Based on the overall strength of the Group's balance sheet including its significant liquidity position at the year end, together with its forecast future operating and investment activities, and having considered the ongoing impact of COVID-19 on the Group's operations and portfolio, the Directors have a reasonable expectation that the Group has adequate financial resources to manage business risks in the current economic environment and continue in operational existence for a period of at least twelve 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). The financial statements of entities held within the Group's direct investment portfolio are not included within these consolidated financial statements, as the Group accounts for these in accordance with the IFRS 10 Investment Entity exemption. 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.

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 with transaction costs 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Basis of consolidation continued

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. The Group does not consolidate or apply IFRS 3 to subsidiaries held as direct investments as a result of applying the Investment Entity exemption in compliance with IFRS 10. Direct investments held are measured at fair value through profit or loss 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 References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- Amendments to IFRS 3 'Business Combinations'
- Amendments to IFRS 16 'COVID-19 related Rent Concessions'
- Amendments to IFRS 17 'Insurance Contracts'.

The adoption of these standards has had no material impact on the Group.

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 IAS 1 'Presentation of Financial Statements' – effective for annual reporting periods beginning on or after 1 January 2022
- Amendments to IFRS 10 'Consolidated Financial Statements and IAS 28 'Investments in Associates and Joint Ventures' – deferred indefinitely.

There are no other IFRSs or International Financial Reporting Interpretations Committee ("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. These one-off payments made by the investee company 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 recognised 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.

Share offer fees

Share offer fees are typically earned from managed funds on a percentage of funds raised basis. They are recognised in the consolidated statement of comprehensive income upon completion of the fundraising as the performance obligation is met. Cash receipts are received upon the allotment of shares to investors. Costs associated with the fundraising are recognised in the consolidated statement of comprehensive income within administrative expenses when incurred.

Performance fees
Performance fees are earned when specified performance metrics exceed hurdles set out within fund management agreements or agreed with investors. These fees are recognised in the consolidated statement of comprehensive income only when the Group is entitled to receive a fee based on performance, the quantum of fee is known and it is highly probable that payment will be received by the Group. Performance fees are received shortly after confirmation of entitlement. Directly attributable costs, such as staff compensation linked to the performance in excess of the hurdle, are recognised in the consolidated statement of comprehensive income within administrative expenses upon recognition of the performance fee.

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 with 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 'administrative expenses' in the income statement.

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 the income statement, 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Taxation continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities, in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The Group primarily seeks to generate capital gains from its holdings in direct investments over the longer term. 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 cannot be offset by the Group's brought forward tax losses.

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 ("FuM") acquired through the acquisition of Enterprise Ventures Group Limited ("Enterprise Ventures") and, in respect of FuM, 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. During the year ended 31 March 2021 the Enterprise Ventures intangible became fully amortised. The fair value of the intangible assets arising from the acquisition of the VCT fund management business 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 the income statement.

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 are measured at amortised cost using the effective interest method, less any expected losses and are categorised as financial assets held at amortised cost. The Group applies the simplified approach to trade receivables when recognising a loss allowance within the financial statements, through the measurement of the expected credit loss of trade receivables at both initial recognition and throughout the life of the receivable.

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

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

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

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

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

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

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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Financial instruments continued

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 the income statement.

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 the income statement 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 the income statement, 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, 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 in December 2018.

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 of 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.

Notes to the consolidated financial statements continued

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

Fair value measurements and valuation processes continued

The recent 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 valuation 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 14 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 Northern VCT 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, which is contingent upon certain conditions being met, has been estimated with reference to the contractual obligations as at 31 March 2021. The conditions upon which payment of the deferred consideration is contingent are outlined below and included in note 24 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 or third anniversaries of completion. In December 2020 the first deferred consideration payment of £2,100,000 was paid in cash by the Group. There have been no indications to date that notice will be given before the second or third anniversaries.

The second condition is that the Group receives at least £16,000,000 of fees in respect of the VCT fund management contracts (excluding performance fees) 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 conditions has been based on a weighted probability of outcomes over the remaining period 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 discounted value of the deferred consideration would reduce by £200,000 with goodwill decreasing by a corresponding amount.

3. Segmental reporting

The Group's revenue and profits are 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 assess 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 2021 £'000	Year ended 31 March 2020 £'000
Fund management fees	**13,143**	8,861
Initial management fees	**1,447**	1,286
Portfolio directors' fees	**3,086**	2,380
VCTs share offer fees	**1,318**	–
Performance fees	**4,224**	–
Other revenue	**192**	220
	23,410	12,747

4. Fair value movements in investments

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Net fair value movements in investments (note 19)	**10,088**	(15,844)

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 2021 Number	Year ended 31 March 2020 Number
Asset management	**70**	63
Central functions	**29**	28
	99	91

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 2021 £'000	Year ended 31 March 2020 £'000
Wages and salaries	**9,143**	7,442
Social security costs	**912**	768
Other pension costs (note 29)	**648**	570
	10,703	8,780

The Directors represent the key management personnel. Detailed disclosures in respect of Directors' remuneration are included in the audited section of the Remuneration Report on page 70, which forms part of these financial statements.

Notes to the consolidated financial statements continued

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 69 to 71 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2021 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	28 August 2018	27 August 2028	734,043	30.80p
	31 July 2019	30 July 2029	1,882,892	33.50p
	28 January 2020	27 January 2030	1,651,111	24.30p
	21 August 2020	20 August 2030	1,306,761	21.50p
Unapproved share option scheme	28 August 2018	27 August 2028	2,872,957	30.80p
	31 July 2019	30 July 2029	865,108	33.50p
	28 January 2020	27 January 2030	3,351,029	24.30p
	21 August 2020	20 August 2030	8,120,239	21.50p
			20,784,140	

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

	Year ended 31 March 2021		Year ended 31 March 2020	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**15,700,140**	**30.22p**	13,413,000	41.99p
Granted during the year	**9,497,000**	**21.50p**	9,040,140	27.99p
Forfeited during the year	**(1,830,000)**	**30.18p**	(1,108,000)	36.03p
Expired during the year	**(2,583,000)**	**37.21p**	(5,645,000)	50.81p
Share options outstanding as at 31 March	**20,784,140**	**25.37p**	15,700,140	30.22p

The options outstanding at 31 March 2021 had a weighted average remaining contractual life of two years (2020: two years). No share options were exercised during the years ended 31 March 2021 or 31 March 2020.

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
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
21 August 2020	21.50p	21.50p	0.5%	10 years	40%	10.45p

On 21 August 2020, share options were granted with a total estimated fair value of £992,000. In the year ended 31 March 2020, share options were granted on 31 July 2019 and 28 January 2020 with an estimated aggregate fair value of £2,531,000.

No dividends are included within the fair value assumptions made on the date of grant. 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 over the preceding three-year period to the date of grant.

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 £543,000 (2020: £528,000).

7. Operating profit/(loss) before exceptional items

Operating profit/(loss) before exceptional items is stated after charging:

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Administrative expenses:		
Staff costs including bonuses linked to performance fees (note 5)	**10,703**	8,780
Marketing, professional adviser, travel and entertainment and other administration costs	**5,137**	3,297
Depreciation of property, plant and equipment (note 17)	**70**	73
Depreciation of right-of-use assets (note 18)	**142**	139
Expenses relating to short-term leases and leases of low-value assets (note 23)	**283**	218
Auditor's remuneration[1]:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**115**	69
– Fees payable to the Company's auditor for other services:		
– Review of the interim accounts of the Company	**44**	20
– The audit of accounts of subsidiaries of the Company	**46**	35
– CASS related assurance services	**14**	30
Total administrative expenses	**16,554**	12,661
Share-based payments charge (note 6)	**543**	528
Amortisation of intangible assets (note 16)	**2,317**	852
Movement in fair value of deferred consideration (note 24)	**365**	-
	19,779	14,041

1 The auditor's remuneration for the year ended 31 March 2020 and the review of the interim accounts for the year ended 31 March 2021 relate to services provided by the Group's former incumbent auditors.

As part of the Group's placing and subsequent acquisition of the VCT fund management business during the year ended 31 March 2020, auditor's due diligence and advisory fees of £173,000 were incurred. Of these costs incurred, £36,000 were included in equity as share issue related costs, with the remaining £137,000 charged to the consolidated statement of comprehensive income as an exceptional cost.

8. Exceptional items

There were no exceptional items recognised during the year ended 31 March 2021.

The exceptional items for the year ended 31 March 2020 represent costs incurred in the acquisition of the VCT fund management business in December 2019 in addition to 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 27). 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 prior to the onset of the COVID-19 pandemic.

9. Finance income

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Interest income arising from:		
Cash and cash equivalents	**5**	101
Short-term liquidity investments	**13**	29
Investee company loans (interest and redemption premiums)	**50**	116
Total interest income	**68**	246

Notes to the consolidated financial statements continued

10. Finance expense

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Interest on lease liabilities	**20**	26
Total interest expense	**20**	26

11. Taxation

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Corporation tax:		
Current year	**–**	–
Deferred tax credit	**(440)**	(159)
	(440)	(159)

The UK standard rate of corporation tax is 19% (2020: 19%). There is no current tax charge in the year (2020: £nil). The deferred tax credit of £440,000 (2020: £159,000) represents the unwinding of the deferred tax liabilities recognised in respect of the intangible assets arising on the acquisition of Enterprise Ventures and the VCT fund management business.

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

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Profit/(loss) before taxation	**34,018**	(17,613)
Tax at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**6,463**	(3,347)
Effects of:		
Income not subject to tax	**(6,938)**	(1,200)
Expenses not deductible for tax purposes	**193**	3,181
Other timing differences not recognised	**282**	1,366
Unwinding of deferred tax liability	**(440)**	(159)
Total tax credit	**(440)**	(159)

A deferred tax liability of £3,372,000 (2020: £3,812,000) continues to be recognised in respect of the intangible assets arising on the acquisition of the VCT fund management business in December 2019. At 31 March 2021, there is no deferred tax liability remaining in relation to the acquisition of the entire issued share capital of Enterprise Ventures in March 2016, due to the related intangible asset becoming fully amortised in March 2021 (2020: £54,000).

A potential deferred tax asset of £5,722,000 (2020: £7,210,000) 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.

Changes to the UK corporation tax rate were substantively enacted on 24 May 2021. From 1 April 2023 the main corporation tax rate will increase to 25% from 19%. As the increased rate of 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

12. Earnings/(loss) per share

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

	Year ended 31 March 2021	Year ended 31 March 2020
Profit/(loss) for the financial year (£'000)	**34,458**	(17,454)
Basic weighted average number of Ordinary shares ('000)	**440,110**	341,401
Basic earnings/(loss) per Ordinary share (pence)	**7.83**	(5.11)
Diluted weighted average number of Ordinary shares ('000)	**440,110**	341,627
Diluted earnings/(loss) per Ordinary share (pence)	**7.83**	(5.11)

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

	Year ended 31 March 2021 '000	Year ended 31 March 2020 '000
Weighted average number of shares		
Basic	***440,110***	*341,401*
Dilutive impact of Ordinary shares issued	**–**	226
Diluted weighted average number of Ordinary shares	**440,110**	341,627

13. Dividends

In December 2020 the Company paid £440,000 in respect of an interim dividend for the year ended 31 March 2021 of 0.1 pence per share. A final dividend for the year ended 31 March 2021 of 0.3 pence per share, totalling £1,320,000, is proposed by the Directors.

	Year ended 31 March 2021		Year ended 31 March 2020	
	Pence per share	£'000	Pence per share	£'000
Equity shares				
Interim	**0.1**	**440**	–	–
Final proposed	**0.3**	**1,320**	–	–
Total	**0.4**	**1,760**	–	–

The final dividend for the year ended 31 March 2021 is subject to shareholder approval at the Annual General Meeting in September 2021, and as such has not been included as a liability in these financial statements in accordance with IAS 10.

Notes to the consolidated financial statements continued

14. Business combinations

On 23 December 2019 Mercia completed the acquisition of the VCT fund management business of 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**

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 of NVM

The actual revenues and profits that have been generated since the acquisition of the VCT fund management business of NVM 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 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.

15. Goodwill

Goodwill arising on the businesses acquired to date, being Mercia Fund Management Limited, Enterprise Ventures and the VCT fund management business, is set out in the table below.

	Mercia Fund Management £'000	Enterprise Ventures £'000	VCT fund management business £'000	Total £'000
Cost				
As at 1 April 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
As at 31 March 2021	**2,455**	**7,873**	**6,314**	**16,642**

Goodwill of £6,314,000 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 14 to these consolidated financial statements.

Goodwill for each business acquired has been assessed for impairment as at 31 March 2021. 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").

The value in use calculations are based on future expected cash flows generated by each CGU, as derived from the approved budget for the year ended 31 March 2022. Key assumptions are the discount rate and growth rates used in forecasting the operating results. Where the fund management contracts are 'evergreen', a value into perpetuity has been used based on a zero growth rate beyond the five year forecast period.

The review concluded that the value in use 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.

16. Intangible assets

Intangible assets represent contractual arrangements in respect of the acquired 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 2019	1,504
Additions	20,331
As at 31 March 2020 and 31 March 2021	**21,835**
Accumulated amortisation	
As at 1 April 2019	920
Charge for the year	852
As at 31 March 2020	**1,772**
Charge for the year	**2,317**
As at 31 March 2021	**4,089**
Net book value	
As at 1 April 2019	584
As at 31 March 2020	20,063
As at 31 March 2021	**17,746**

The intangible asset recognised on acquisition of Enterprise Ventures became fully amortised in March 2021.

Notes to the consolidated financial statements continued

17. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2019	42	77	444	563
Additions	–	1	44	45
As at 31 March 2020	**42**	**78**	**488**	**608**
Additions	**–**	**–**	**52**	**52**
As at 31 March 2021	**42**	**78**	**540**	**660**
Accumulated depreciation				
As at 1 April 2019	15	60	335	410
Charge for the year	5	4	64	73
As at 31 March 2020	**20**	**64**	**399**	**483**
Charge for the year	**5**	**4**	**61**	**70**
As at 31 March 2021	**25**	**68**	**460**	**553**
Net book value				
As at 1 April 2019	27	17	109	153
As at 31 March 2020	22	14	89	125
As at 31 March 2021	**17**	**10**	**80**	**107**

18. Right-of-use assets

	Properties £'000
Cost	
Introduced on adoption of IFRS 16 at 1 April 2019	737
As at 31 March 2020 and 31 March 2021	**737**
Accumulated depreciation	
Introduced on adoption of IFRS 16 at 1 April 2019	–
Charge for the year	139
As at 31 March 2020	**139**
Charge for the year	**142**
As at 31 March 2021	**281**
Net book value	
Introduced on adoption of IFRS 16 at 1 April 2019	737
As at 31 March 2020	598
As at 31 March 2021	**456**

19. Investments

The net change in the value of investments for the year is an increase of £8,749,000 (2020: £188,000 decrease). The table below reconciles the opening to closing value of investments for both the current and prior years.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
As at 1 April	**87,471**	87,659
Investments made during the year	**15,647**	17,449
Investee company loan repayments	**(250)**	(1,793)
Disposals	**(16,736)**	–
Unrealised fair value gains on investments	**10,773**	3,351
Unrealised fair value losses on investments	**(685)**	(19,195)
As at 31 March	**96,220**	87,471

On 8 June 2020, Crowd Reactive Limited repaid a £150,000 debt investment made by the Group.

On 9 July 2020, the Group sold its investment in The Native Antigen Company Limited for a total cash consideration of £5,248,000, recognising a realised gain of £1,755,000.

On 19 October 2020, the Group sold its investment in Clear Review Limited for a total cash consideration of £1,043,000, recognising a realised gain of £543,000.

On 1 March 2021, the Group sold its investment in Oxford Genetics Limited for a total cash consideration of £30,696,000, recognising a realised gain of £17,953,000.

Investments held as part of the Group's direct investment portfolio are carried in the balance sheet at fair value in accordance with the IFRS 10 Investment Entity exemption.

The measurement basis for determining the fair value of investments held at 31 March is as follows:

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Listed investment	**4,488**	475
Price of last investment round	**48,210**	35,750
Enterprise value	**26,717**	26,437
Cost	**3,245**	9,103
Impaired value	**13,560**	15,706
	96,220	87,471

As at 31 March 2021 the Group held direct investments with an economic interest of 20% or more as follows:

	Interest held %	Net assets/(liabilities) £'000	Profit/(loss) £'000	Date of financial statements
Edge Case Games Limited	21.2	1,912	(31)	30 September 2020
Impression Technologies Limited	67.3	(251)	(1,893)	31 December 2020
Intechnica Limited	27.5	499	400	31 March 2020
LM Technologies	47.4	13	(506)	31 December 2020
Medherant Limited	29.0	(2,180)	(2,337)	31 March 2021
nDreams Limited	35.4	(846)	(1,243)	31 March 2020
Nightingale-EOS Limited	25.3	1,014	(14)	31 July 2020
Soccer Manager Limited	39.0	(2,552)	137	31 October 2020
sureCore Limited	22.0	163	(821)	30 June 2020
Ton UK Limited t/a Intelligent Positioning	29.9	1,109	(763)	31 December 2019
VirtTrade Limited t/a Avid Games	20.3	(4,113)	(990)	31 August 2020
Warwick Acoustics Limited	35.8	1,632	(1,614)	30 September 2020

Notes to the consolidated financial statements continued

19. Investments continued

As at 31 March 2020 the Group held direct investments with an economic interest of 20% or more as follows:

	Interest Held %	Net assets/(liabilities) £'000	Profit/(loss) £'000	Date of financial statements
Crowd Reactive Limited	22.6	683	121	31 December 2018
Edge Case Games Limited	21.2	1,942	183	30 September 2019
Impression Technologies Limited	25.9	4,402	(2,763)	31 December 2018
Intechnica Limited	27.5	3,243	(3,176)	31 March 2019
LM Technologies	39.4	119	(383)	31 December 2019
Medherant Limited	30.1	1,171	(2,363)	31 March 2019
MyHealthChecked PLC (formerly Concepta PLC)	22.4	2,234	(2,150)	31 December 2019
nDreams Limited	36.4	(828)	(1,510)	31 March 2019
Nightingale-EOS Limited	28.5	1,028	(12)	31 July 2019
Oxford Genetics Limited t/a OXGENE	30.2	8,945	(3,963)	30 April 2019
Soccer Manager Limited	34.8	(2,689)	(930)	31 October 2019
sureCore Limited	22.0	984	(805)	30 June 2019
The Native Antigen Company Limited	29.3	1,835	451	30 September 2019
Ton UK Limited t/a Intelligent Positioning	28.2	1,172	(190)	31 December 2018
VirtTrade Limited t/a Avid Games	25.8	(3,025)	(1,201)	31 August 2019
Warwick Acoustics Limited	52.9	2,790	(2,054)	30 September 2019

20. Trade and other receivables

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Current:		
Trade and other receivables	**599**	577
Less: expected credit loss allowance	**(285)**	(205)
Net trade receivables	**314**	372
Other receivables	**67**	11
Prepayments and accrued income	**3,679**	915
	4,060	1,298

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 2021, an amount of £285,000 (2020: £205,000) 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 is as follows:

	Year ended 31 March 2021		Year ended 31 March 2020	
	Gross £'000	**Expected credit loss allowance £'000**	Gross £'000	Expected credit loss allowance £'000
Not past due	**77**	**-**	117	(14)
Past due 0-30 days	**58**	**(14)**	15	(3)
Past due 31-60 days	**47**	**(19)**	74	(40)
Past due 61-90 days	**-**	**-**	-	-
Past due more than 91 days	**417**	**(252)**	371	(148)
	599	**(285)**	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:

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
As at 1 April	**205**	184
Increase in loss allowance	**235**	125
Amounts recovered	**(155)**	(101)
Amounts written off	**-**	(3)
As at 31 March	**285**	205

The net increase in the expected credit loss allowance of £80,000 (2020: £21,000) has been recorded against revenue in the consolidated statement of comprehensive income. The maximum exposure to credit risk of the receivables at the balance sheet date is the fair value of each class of receivable disclosed.

21. Cash, restricted cash, cash equivalents and short-term liquidity investments

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Cash at bank and in hand	**54,491**	23,971
Total cash and cash equivalents	**54,491**	23,971
Total short-term liquidity investments	**234**	6,215
Total restricted cash	**2,484**	467

The Group holds £2,484,000 (2020: £467,000) of cash on behalf of third-party EIS investors, which is not available for use by the Group and therefore has been presented as restricted cash.

22. Trade and other payables

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Trade payables	**326**	729
Tax and social security	**240**	244
Other payables	**3,233**	908
Accruals and deferred income	**4,328**	2,924
	8,127	4,805

Other payables includes a liability of £2,484,000 (2020: £467,000) relating to cash held on behalf of third-party EIS investors.

Notes to the consolidated financial statements continued

23. Lease liabilities

The Group holds leases for use of office premises. 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 weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the Group's consolidated balance sheet as at 31 March 2021 is 3.25%. As at 31 March 2021 and 31 March 2020, the Group had no lease liabilities in respect of leases committed to but not yet commenced. The table below summarises the annual lease costs.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Depreciation expense	**142**	139
Interest expense	**20**	26
Low-value lease expense	**239**	173
Short-term lease expense	**44**	45

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

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Due within one year	**122**	118
Due between one and five years	**351**	473
	473	591

24. Deferred consideration

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Payable within one year	**1,578**	1,736
Payable within two to five years	**2,869**	4,446
	4,447	6,182

On 23 December 2019 Mercia completed the acquisition of the VCT fund management business 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 following 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, in addition to £2,100,000 payable in new Ordinary Mercia shares. In December 2020, the first cash instalment of £2,100,000 was paid in cash by the Group.

Half 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 contracts (excluding performance fees) 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 the deferred consideration is based on a weighted probability of outcomes over the remaining period discounted by 10%. The fair value movement in deferred consideration during the year resulted in a charge to the income statement of £365,000 (2020: £nil).

25. Deferred taxation

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Deferred tax liability	**3,372**	3,812

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. 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 2021, a deferred tax liability of £3,372,000 (2020: £3,812,000) is recognised. Of this amount £3,372,000 (2020: £3,758,000) is in respect of the intangible asset arising on the acquisition of the VCT fund management business and £nil (2020: £54,000) is in respect of the intangible asset arising on the acquisition of Enterprise Ventures due to it being fully amortised in March 2021.

26. Issued share capital

	31 March 2021		31 March 2020	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**440,109,707**	**4**	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**	440,109,707	4

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. 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.

27. Share premium

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
As at the beginning of the year	**81,644**	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**	81,644

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

Notes to the consolidated financial statements continued

28. Other distributable reserve

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
As at the beginning of the year	**70,000**	70,000
Dividend paid (note 13)	**(440)**	–
As at the end of the year	**69,560**	70,000

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.

29. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2021 was £648,000 (2020: £570,000). As at 31 March 2021, contributions amounting to £11,000 (2020: £23,000) had not yet been paid over to the plans and are recorded in other payables (note 22).

30. 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 57 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. In accordance with IFRS 9, the financial assets and liabilities are classified as FVTPL or at amortised cost. The carrying amounts of financial assets and financial liabilities in each category are as follows:

As at 31 March 2021	FVTPL £'000	Amortised cost £'000	Total £'000
Long-term financial assets	**96,220**	**-**	**96,220**
Trade and other receivables	**-**	**381**	**381**
Restricted cash	**-**	**2,484**	**2,484**
Short-term liquidity investments	**-**	**234**	**234**
Cash and cash equivalents	**-**	**54,491**	**54,491**
Short-term financial assets	**-**	**57,590**	**57,590**
Total financial assets	**96,220**	**57,590**	**153,810**
Trade and other payables	**-**	**(3,559)**	**(3,559)**
Accruals	**-**	**(3,661)**	**(3,661)**
Lease liabilities	**-**	**(473)**	**(473)**
Total financial liabilities	**-**	**(7,693)**	**(7,693)**

As at 31 March 2020	FVTPL £'000	Amortised cost £'000	Total £'000
Long-term financial assets	87,471	–	87,471
Trade and other receivables	–	383	383
Restricted cash	–	467	467
Short-term liquidity investments	–	6,125	6,125
Cash and cash equivalents	–	23,971	23,971
Short-term financial assets	–	30,946	30,946
Total financial assets	87,471	30,946	118,417
Trade and other payables	–	(1,637)	(1,637)
Accruals	–	(2,449)	(2,449)
Lease liabilities	–	(591)	(591)
Total financial liabilities	–	(4,677)	(4,677)

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.

The maturity profile of the Group's financial liabilities based on contractual undiscounted payments is as follows.

As at 31 March 2021	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000
Trade payables	–	326	–	–	326
Other payables	–	4,650	–	–	4,650
Client money held	2,484	–	–	–	2,484
Deferred consideration (note 24)	–	–	2,100	2,100	4,200
Lease liabilities	–	34	103	372	509
	2,484	5,010	2,203	2,472	12,169

As at 31 March 2020	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000
Trade payables	–	729	–	–	729
Other payables	–	3,134	–	–	3,134
Client money held	467	–	–	–	467
Deferred consideration (note 24)	–	–	2,100	4,200	6,300
Lease liabilities	–	34	103	509	646
	467	3,897	2,203	4,709	11,276

Notes to the consolidated financial statements continued

30. Financial risk management continued

Market risk continued

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 2021 £'000	As at 31 March 2020 £'000
Net trade receivables	**314**	372
Cash at bank and in hand	**54,491**	23,971
Short-term liquidity investments	**234**	6,215
	55,039	30,558

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 2021, an amount of £285,000 (2020: £205,000) 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 2021.

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.

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 measured at fair value as at 31 March 2021. There have been no movements in financial assets or financial liabilities between levels during the current or prior years. The table in note 19 of these consolidated financial statements sets out the movement in the Level 1 and 3 financial assets from the start to the end of the year.

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Assets:		
Financial assets at fair value through profit or loss ("FVTPL")		
Level 1	**4,488**	475
Level 2	**–**	–
Level 3	**91,732**	86,996
	96,220	87,471

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Liabilities:		
Financial liabilities at amortised cost – deferred consideration		
Level 1	**-**	–
Level 2	**-**	–
Level 3	**4,447**	6,182
	4,447	6,182

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
The Group had one direct investment listed on AIM, MyHealthChecked plc, which is valued using the closing bid price as at 31 March 2021.

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 of the fair value hierarchy and the individual valuations for each of the companies have been arrived at using appropriate valuation techniques.

The Group has adopted the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG") for determining 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.

A reconciliation of the movement in Level 1 and 3 financial assets from 1 April to 31 March is disclosed, in totality, in note 19 of these consolidated financial statements, and on an individual direct investment basis within the Chief Financial Officer's review on page 50.

31. 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 70. Directors' shareholdings in the Group are disclosed on page 72 of the Remuneration Report.

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

33. Post balance sheet events
Other than the continuing completion of approved direct investments and the reporting of performance fees payable to Mercia as at 31 March 2021 by the two Northern VCTs, there have been no material events since the balance sheet date.

Company balance sheet

As at 31 March 2021

	Note	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	38	**100**	115
Right-of-use assets	39	**457**	597
Investments in subsidiary undertakings	40	**49,133**	40,133
Trade and other receivables	41	**80,000**	91,000
Total non-current assets		**129,690**	131,845
Current assets			
Trade and other receivables	41	**263**	530
Short-term liquidity investments		**234**	6,215
Cash at bank and in hand		**26,732**	16,669
Total current assets		**27,229**	23,414
Total assets		**156,919**	155,259
Current liabilities			
Trade and other payables	42	**(853)**	(1,058)
Lease liabilities	43	**(122)**	(117)
Total current liabilities		**(975)**	(1,175)
Non-current liabilities			
Lease liabilities	43	**(351)**	(473)
Total non-current liabilities		**(351)**	(473)
Total liabilities		**(1,326)**	(1,648)
Net assets		**155,593**	153,611
Equity			
Issued share capital	44	**4**	4
Share premium	44	**81,644**	81,644
Other distributable reserve	45	**69,560**	70,000
Retained earnings		**1,977**	98
Share-based payments reserve		**2,408**	1,865
Total equity		**155,593**	153,611

The Company's profit for the year was £1,879,000 (2020: £3,662,000).

The notes on pages 112 to 117 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 110 to 117 were approved by the Board of Directors and authorised for issue on 5 July 2021. 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 2021

	Issued share capital (note 44) £'000	Share premium (note 44) £'000	Other distributable reserve (note 45) £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 2019	3	49,324	70,000	(3,564)	1,337	117,100
Total comprehensive income for the year	–	–	–	3,662	–	3,662
Issue of share capital	1	34,199	–	–	–	34,200
Share-based payments charge	–	–	–	–	528	528
Cost of share capital issued	–	(1,879)	–	–	–	(1,879)
As at 31 March 2020	**4**	**81,644**	**70,000**	**98**	**1,865**	**153,611**
Total comprehensive income for the year	**–**	**–**	**–**	**1,879**	**–**	**1,879**
Dividends paid	**–**	**–**	**(440)**	**–**	**–**	**(440)**
Share-based payments charge	**–**	**–**	**–**	**–**	**543**	**543**
As at 31 March 2021	**4**	**81,644**	**69,560**	**1,977**	**2,408**	**155,593**

Notes to the Company financial statements

For the year ended 31 March 2021

34. 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 the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 ("the Act"). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities.

Based on the overall strength of the Company's balance sheet including its significant liquidity position at the year end together with its forecast future operating activities and having considered the ongoing impact of COVID-19 on the Company's operations, the Directors have a reasonable expectation that the Company has adequate financial resources to manage business risks in the current economic environment and 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 financial statements.

These financial statements are prepared under the historical cost convention. A summary of the Company's 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 the income statement, 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 the income statement, 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 income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

35. 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.

36. 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).

37. 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.

Notes to the Company financial statements continued

38. 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**
Additions	**–**	**–**	**52**	**52**
As at 31 March 2021	**42**	**39**	**371**	**452**
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**
Charge for the year	**5**	**1**	**61**	**67**
As at 31 March 2021	**25**	**38**	**289**	**352**
Net book value				
As at 1 April 2019	27	3	109	139
As at 31 March 2020	22	2	91	115
As at 31 March 2021	**17**	**1**	**82**	**100**

39. Right-of-use assets

	Properties £'000
Cost	
Introduced on adoption of IFRS 16 at 1 April 2019	702
Additions	–
As at 31 March 2020	**702**
Additions	**–**
As at 31 March 2021	**702**
Accumulated depreciation	
Introduced on adoption of IFRS 16 at 1 April 2019	–
Charge for the year	105
As at 31 March 2020	**105**
Charge for the year	**140**
As at 31 March 2021	**245**
Net book value	
Introduced on adoption of IFRS 16 at 1 April 2019	702
As at 31 March 2020	597
As at 31 March 2021	**457**

40. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2019	23,533
Additions	16,600
As at 31 March 2020	**40,133**
Additions	**9,000**
As at 31 March 2021	**49,133**

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

On 29 June 2020, the Company increased its investment in its subsidiary company Mercia Fund Management Limited by £9,000,000 satisfied in cash.

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 2021 are as detailed below.

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 Group Limited	England	100%	Intermediate holding 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.

The companies listed above have their registered offices at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA with the exception of Enterprise Ventures Group Limited and its subsidiaries which are registered at Unit F26, Preston Technology Management Centre, Marsh Lane, Preston, Lancashire PR1 8UQ.

41. Trade and other receivables

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**-**	270
Other debtors	**55**	76
Prepayments and accrued income	**208**	184
Current assets	**263**	530
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**80,000**	91,000
Non-current assets	**80,000**	91,000

Amounts due from subsidiary undertakings are in respect of unsecured, interest-bearing loans. Interest is charged on the principal sum of the loans typically at a rate of 4% and is paid half-yearly. The 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.

Notes to the Company financial statements continued

42. Trade and other payables

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Trade payables	**138**	164
Accruals and deferred income	**715**	894
	853	1,058

43. Lease liabilities

The Company has no lease liabilities in respect of leases committed to but not yet commenced.

The table below summarises the lease costs charged to the income statement during the current and prior years.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Depreciation expense	**105**	105
Interest expense	**20**	25
Low-value lease expense	**29**	16
Short-term lease expense	**60**	39

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

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Due within one year	**122**	117
Due between one and five years	**351**	473
	473	590

44. Issued share capital and share premium

The movements in issued share capital and share premium are disclosed in notes 26 and 27 to the consolidated financial statements.

45. Other distributable reserve

The movements in other distributable reserve are disclosed in note 28 to the consolidated financial statements.

46. 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 2021 Number	Year ended 31 March 2020 Number
Central functions	**10**	9

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 2021 £'000	Year ended 31 March 2020 £'000
Wages and salaries	**1,040**	950
Social security costs	**100**	120
Other pension costs (note 47)	**53**	58
	1,193	1,128

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 68 to 72 of this Annual Report.

47. Retirement benefit schemes

The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2021 was £53,000 (2020: £58,000). As at 31 March 2021, no contribution payments were outstanding (2020: £nil).

48. 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 31 of the consolidated financial statements details the Group's related party transactions.

49. Ultimate controlling party

The Company has no single ultimate controlling party.

50. Post balance sheet events

There have been no material events since the balance sheet date.

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)
Diane Seymour-Williams	(Senior Independent Director)
Raymond Kenneth Chamberlain	(Non-executive Director)
Dr Jonathan David Pell	(Non-executive Director)
Caroline Bayantai Plumb OBE	(Non-executive Director)

Company Secretary
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
BDO LLP
Statutory Auditor
55 Baker Street, Marylebone
London W1U 7EU

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
Highdown House
Yeoman Way
Worthing
West Sussex BN99 3HH

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
Singer Capital Markets 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 14 September 2021 at 10.00 am for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed in the case of resolutions 1 to 9 as ordinary resolutions and resolutions 10 and 12 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 2021 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2021.
3. That Diane Seymour-Williams, who retires as a Director in accordance with Article 89.2 of the Articles and being eligible to do so, offers herself for re-election as a Director, be re-elected as a Director of the Company.
4. That Martin Glanfield, who retires as a Director in accordance with Article 89.3 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
5. That Raymond Chamberlain, who retires as a Director in accordance with Article 89.3 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
6. That Caroline Plumb OBE, who retires as a Director in accordance with Article 89.3 of the Articles and being eligible to do so, offers herself for re-election as a Director, be re-elected as a Director of the Company.
7. To reappoint BDO 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 resolutions

8. 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 2022 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.
9. That a final dividend of 0.3 pence per Ordinary share for the year ended 31 March 2021 be declared.

Special resolutions

10. That, subject to the passing of resolution 8, 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 8 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 2022 save that the Company shall be entitled to make, prior to the expiry of such authority, offers or arrangements, which would or might require equity securities to be allotted and/or sold after such expiry, and the Directors may allot and/or sell equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired. The authority granted by this resolution shall replace all existing authorities previously granted to the Directors to allot equity securities for cash, or by way of a sale of treasury shares as if section 561(1) of the Act did not apply.
11. That the Company be authorised generally and unconditionally, in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares provided that:
    a. the maximum number of Ordinary shares that may be purchased is 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 2022 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.

Notice of Annual General Meeting continued

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

12. That with effect on and from the conclusion of the AGM, the new articles of association produced to the AGM and, for the purpose of identification, initialled by the Chair of the AGM be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Company's existing articles of association.

By order of the Board of Directors

Sarah-Louise Thawley
Company Secretary
30 July 2021

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

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

The Company continues to closely monitor 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.

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 am on 10 September 2021 (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, Highdown House, Yeoman Way, Worthing, West Sussex BN99 3HH, 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 the votes cast 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 pm on 10 September 2021 (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 pm on 10 September 2021 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 30 July 2021, 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 30 July 2021 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 30 July 2021 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 2021.
2. Resolution 2 – the shareholders are required to approve the Remuneration Report for the year ended 31 March 2021.
3. Resolution 3 – retirement of Director by rotation – pursuant to Article 89.2 of the Articles, at the first AGM following the appointment of a new Director, any such Director who is required to retire by rotation pursuant to the Articles, shall retire and submit himself/herself for re-election by shareholders.
4. Resolutions 4, 5 and 6 – retirement of Directors by rotation – pursuant to Article 89.3 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.
5. Resolution 7 – 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.
6. Resolution 8 – 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 2022 and 30 September 2022 (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 £440.10 (representing 10% of the issued Ordinary share capital of the Company as at 30 July 2021 (the latest practicable date prior to the publication of this document)).
7. Resolution 9 – declaration of final dividend – pursuant to Article 139.1 of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. This final dividend shall be paid on 12 October 2021 to the holders of Ordinary shares on the Register of Members at the close of business on 24 September 2021.
8. Resolution 10 – statutory preemption 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' preemption 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 £440.10 (representing 10% of the issued Ordinary share capital of the Company as at 30 July 2021 (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 2022 and 30 September 2022 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
9. Resolution 11 – 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 30 July 2021 (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.
10. Resolution 12 – adoption of new articles of association – the Directors are proposing to adopt new articles of association containing minor amendments to reflect changes in law and regulation and developments in market practice since the Company's IPO. A copy of the new articles of association marked to show all the changes will be available for inspection at the registered office of the Company during normal business hours from 30 July 2021 and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.