Mercia is...

Annual Report & Accounts 2022

ambitious
diverse
experts
friendly
trusted
great people
innovative
generous
challenging
collaborative
respectful
supportive
flexible
open
creative
momentum
honest
professional
growing
together
family
caring
collaborative
exciting
knowledgeable
inclusive
successful
experienced
fun
regional
welcoming

Mercia is...

ambitious, as defined by the team who makes up #OneMercia. But this is within a multilayered context that also speaks to our values, ethos and purpose. When asked to define Mercia, our team curated these words that best describe us, some of which we will bring to life in this year's Annual Report.

Cover imagine: virtual reality headset courtesy of nDreams Ltd.

Mercia by numbers

£200.6m

Net assets
2021: £176.0m

45.6 pence

Net assets per share
2021: 40.0 pence

£20.6m

Revenue*
2021: £19.2m

£8.4m

Adjusted operating profit*
2021: £3.3m

£27.4m

Profit before taxation
2021: £34.0m

0.5 pence/share

Proposed final dividend
2021: 0.3 pence/share

£61.3m

Cash**
2021: £54.7m

c.£959m

Assets under Management ("AuM")
2021: c.£940m

* Excluding performance fees
** Including short-term liquidity investments

2022 highlights

- Sale of Faradion Ltd with total proceeds of £19.4million
- £11.4million fair value movements ("FvM") in the direct investment portfolio, following continued commercial progress, including significant third-party investment into nDreams

Operational highlights

- £31.4million awarded by the British Business Bank ("BBB") to Mercia's equity and debt funds
- c.£87million of cash returned to fund investors from successful realisations (2021: c.£27million)
- Office opened in Bristol to strengthen our presence in the South West of England
- Launch of 'Mercia Nucleus'

Contents

Non-executive Chair's statement

Responsible investing with purpose

trusted

In the midst of the greatest social, economic and geopolitical uncertainty in a generation, Mercia has delivered a second consecutive year of outstanding financial results, thanks to our continuing focus on being the first choice for our investors, investees and employees.

#OneMercia

The last two years have been a period of immense challenge for everyone. Navigating our way through the pandemic, whilst continuing to grow Mercia and execute on our strategic priorities, has required a cohesive Board, experienced and resilient Executive leadership and unwavering commitment from all of our valued staff. Right across the Group, our people continue to define us. Our #OneMercia culture is the glue which binds together all of our collective and individual aspirations. Equally important is the encouraging support we continue to receive from our shareholders and fund investors across all of our asset categories. Our ever-growing portfolio of investee companies and their leadership teams are also critical to our continuing future success. On behalf of our Board, I pay tribute and thank all connected with Mercia for their outstanding collective efforts during the last two years, helping us to reach this very strong juncture of over £200million in net assets, whilst still relatively young in our journey.

Responsible investing with purpose

Mercia does not apply a scatter-gun approach to investing. We invest with purpose to make a return for our investors. As we deploy our investment skills, our mindset is that of a responsible investor, as we share the investee's journey with them. This mindset is not just outward looking however, we also look at ourselves to see how we can increase our own contribution to the fundamentally important areas of diversity and the environment.

Ian R. Metcalfe
Non-executive Chair

There is always more that can be done, but it was encouraging to see that at our recent senior leadership strategy day, half of the 14 attendees were women. Equally encouraging is that despite it not yet being mandatory for Mercia, we have taken the proactive decision to measure and report on our carbon footprint – for the first time Mercia has been measured and offset its carbon footprint to become a carbon-neutral company. As part of our mantra of 'responsible investing with purpose', we believe in practising what we ask of our investee companies, in terms of both good governance and being good citizens. Carbon offsetting is just the beginning, and we will seek to reduce our carbon footprint over time.

Strategic progress – 'Mercia 20:20'

In 2021, Mercia largely achieved its previous three-year strategic plan one year early. At the time of announcing last year's financial results, the Group launched a new three-year strategic plan: 'Mercia 20:20'. The Group's new objectives are to:

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

The achievement of these two new strategic objectives will deliver substantial total shareholder returns during the three years, as well as facilitating a growing dividend. In the specialist asset management sector in which Mercia operates, year-on-year financial results are rarely uniform. The Group's focus is therefore on delivering these twin annual strategic objectives 'on average' during the three-year period. The Board is pleased with progress thus far and is currently on target to deliver against these objectives.

Dividend

In conjunction with the announcement of its interim results in December 2020, Mercia declared its maiden interim dividend of 0.1 pence per share, as the beginning of a progressive dividend policy. In October 2021, this was followed by a maiden final dividend of 0.3 pence per share and an interim dividend last December of 0.3 pence per share. If approved by shareholders at this September's Annual General Meeting ("AGM"), the Board is recommending a final dividend of 0.5 pence per share, making 0.8 pence per share for the full year (2021: 0.4 pence per share). If approved, the dividend will be paid on 11 October 2022 to shareholders on the register at close of business on 23 September 2022.

Given the strength of Mercia's business model and its excellent cash position, the Board's objective remains to maintain this progressive policy.

Governance and engagement

As part of our continuing commitment to the governance principles of the *Quoted Companies Alliance Corporate Governance Code*, we commissioned our third independent external Board effectiveness review since our admission to the Alternative Investment Market ("AIM") in December 2014. The review findings and recommendations are summarised on page 58 of this Annual Report, but it is reassuring to note that the external review concluded that "overall, the Board appears to be performing very well" and that "the Board has clearly made progress since its last effectiveness review".

It is critical to our future success that we continue to meet the investment objectives agreed with our different asset class fund investors. This includes our institutional investors, individual investors and the independent boards of the three Northern Venture Capital Trusts ("VCT").

In respect of the latter, we remain fully committed to investing in and supporting the VCT investment team, as we help them to successfully manage and expand their VCT portfolios.

Proactive engagement with all of our stakeholder groups remains particularly important to our Board. Whilst the intermittent lockdowns and remote working directives of the last two years have curtailed face-to-face discussions, I look forward to re-engaging with our stakeholders during the current financial year.

Opportunity

These financial results successfully build on last year's breakthrough achievements. They also point to the calibre of our people and the accelerating maturity of our business model. This is demonstrated by the recurring profits now being derived from our investment activities in both our fund management business and from the balance sheet portfolio. With continuing heightened interest in several of the sectors into which Mercia invests, the opportunities for further growth, and hence the potential for sustained incremental shareholder value creation, is now firmly established.

As Chair, I remain immensely proud to be part of #OneMercia, which remains a community of outstanding people who care about responsibly investing the funds we manage, the companies in which we invest or to which we lend, and, most importantly of all, continue to care about each other.

Ian R. Metcalfe
Non-executive Chair

Section 172

Engaging with our stakeholders

first choice

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

Our vision is to be the first choice for our investors, investees and employees. How we succeed forms the narrative of this report and is set within the framework of stakeholder engagement.

In this s172 statement we explain how our Board meets this statutory requirement, whilst promoting the success of Mercia. We also signpost where in this report you will find more detailed information regarding each part of the statement and how we bring it to life every day.

Impact of Company operations on the community and the environment

Our commitment to regional investment supports regional business growth, which in turn supports the communities in which our investees become employers. This generates both revenues and demand for local services and suppliers. Read more about the regional focus of our investment activities on page 23. As part of Mercia's commitment to improving its own environmental impact, we have made progress towards carbon neutrality this year and post year end, became certified as a carbon-neutral company. You can read more about this part of our Environmental, Social and Governance ("ESG") journey on page 33.

Alison Dwyer
Head of Marketing and Communications

c.1,000
Non-executives in our network

c.410
Companies in our portfolios

56
Portfolio Net Promoter Score

Fostering business relationships

Mutually beneficial relationships with shareholders, investors, investees, partners and suppliers are critical in executing Mercia's strategy, and these are all developed within the framework of our values. We have an egalitarian approach to all our stakeholders, that recognises that their value and role are pivotal to Mercia but, equally, to a wider regional business community. Read more about our ecosystem and how we preserve and grow this vital network in the Chief Executive Officer's ("CEO") review on page 8.

Outcomes of long-term decisions

We are one year through Mercia's three-year 'Mercia 20:20' plan. Completing this plan will secure the Board's current ambitions for Mercia's growth and also pave the way for Mercia's longer-term ambitions. Read more about how we are building a business that is sustainable for its stakeholders on page 6.

Maintaining high standards

Mercia aims to manage all its business dealings in alignment with its values, which are set out on page 8. Every employee at Mercia is encouraged and rewarded with reference to these values to ensure we enable continued improvement for all of us.

Acting with fairness and integrity

We act with transparency and integrity in our dealings with all stakeholders, a fact which is well demonstrated by how we manage conflicts of interest that may arise between our stakeholders. We describe the open and inclusive way in which the Board makes decisions on page 57.

Looking out for employees

Our employees are core to our business and the delivery of our strategic ambition. Our Board is committed to attracting employees that share Mercia's cultural values. In ensuring that we retain that talent, Mercia focuses on developing the skills and experience of the team in an environment centred on supporting employee wellbeing. Read more about the investment we have made in our learning and development programme this year on page 35.

Net Promoter Scores

Every year we strive to improve the frequency and quality of our communications with our investors, investees and employees. From formal channels and quarterly newsletters to weekly light-hearted emails and informative webinars and podcasts, the high level of expertise and transparency that we offer has resulted in another increase in our Net Promoter Score ("NPS") to 56 across all portfolio stakeholders.

Mercia 20:20

investors

Delivering a sustainable future

Achieve average pre-tax profits of

£20m

per annum over the next three years

Grow AuM by an average of

20%

over the same three-year period

Maurice Disasi
Investment Manager,
NPIF

We are one year into our journey towards achieving our 'Mercia 20:20' targets and we remain firmly on course. We have exceeded the average annual profit before tax ("PBT") target and continued to increase our AuM against the backdrop of our significant investment exit performance.

Other key objectives	FY22 progress
To create superior stakeholder value	• Implemented stakeholder response service level agreement • Achieved positive feedback from media, brokers and analysts • Upward movement in fair value of £11.4million across the Group's direct investments • c.£155million realised across 30 companies • Faradion sold for a total value of £100.0million
To provide dynamic capital solutions to investee companies throughout their growth journey	• Invested c.£124million across all Mercia-managed funds and balance sheet • c.£202million in co-investments secured across Mercia's portfolios
To increase funds under management ("FuM") through increased fund mandates, fund raising activities and mergers and acquisitions ("M&A")	• Enterprise Investment Scheme ("EIS") funds raised c.£16million • BBB allocated an additional £31.4million • Post year end Northern VCTs raised £40.0million
To remain cost efficient and grow profitability	• Costs were managed under budget • Adjusted operating profit more than doubled • Exceeded average annual pre-tax profit target achieving £27.4million
To support investee growth through proactive engagement	• Formation of 'Mercia Nucleus', with expanded portfolio support services • Continued growth of Mercia's non-executive network • Five new partners added to the Mercia Partnership Programme • Webinars and panel discussions held regularly • Weekly newsletter, 'Starter for Ten', launched
To optimise risk management and compliance	• Developed risk register dashboard for improved information management and monitoring • Internal training bolstered with training videos

Ambitious for *your* success

inclusive

Chief Executive Officer
Dr Mark Payton

"Mercia's performance and building momentum is testament to the whole #OneMercia team."

Our values

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

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

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

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

Mercia's sole focus is to fulfill the ambitions of our investors, investees and employees and in this respect, we are particularly focused on where our investees and employees are heading, not where they are from. This aligned drive has helped Mercia perform strongly during the repeated challenges of the last two years; be it the impact of Brexit, the pandemic, rising inflationary pressures or the war in Ukraine. I am proud of the business for demonstrating resilience and of what we have achieved during this prolonged period of uncertainty – the prospects will result in a rewarding future for all our stakeholders. As a purpose-led domestic investor with offices in the UK's regions we believe passionately in responsible investment, as we seek to set the standards that our portfolio companies will emulate. Our immediate goals have been driven by a strong ESG agenda and have already delivered improved diversity and inclusion within our business.

I have no doubt that the momentum achieved, as outlined in the 'Responsible business' review, starting on page 28, will instill a confidence in our future intent and the Mercia team that drives these important initiatives.

Investing in local communities
We are exclusively focused on the UK market, investing in small and medium-sized enterprises ("SMEs"), typically located within two hours of one of our eight physical offices. A demonstration of our continued growth is reflected in the recent opening of our Bristol office. Mercia's investment reach is nationwide; across the South West, South East, the Midlands, the North of England and into Scotland and Wales, providing a genuine regional presence within a national footprint. The companies in which we invest create jobs and embed themselves into the local economies as they grow.

Ambitious for our investors
Coupled with the increasing quality of our portfolio is our 'Complete Connected Capital', the growing pools of different types of capital that will help take a business from its inception, through scale up and on to profitability. We make sure that the right capital is available at the right time for our portfolio businesses, whilst ensuring that regular reporting, externally audited portfolio holding values, regular face-to-face and digital access to Mercia keep our investors fully informed of their investment progress. This has been a successful period for Mercia's investors with c.£87million returned to individual and institutional investors as a result of investment realisations. Due to the nature of Mercia's long-term third-party capital, which is held in 'closed-end' funds, we do not have exposure to redemptions. The relatively small increase in AuM is a consequence of these successful exits, leading to elevated cash returns to investors. However, our strong investment performance has been noted by EIS and VCT market analysts in particular, which should help drive future AuM growth, as investors look to re-invest and/or follow our successful track record of investment returns. We are one of the leading managers of EIS and VCTs in the country, and whilst we are not complacent in respect of the success experienced this year, our growing exit track record and investment returns bode well for future AuM growth.

Ambitious for our investees
With an active network nationwide, we receive over 2,500 business plans per annum. Of those received, we typically invest in c.5%. As a committed investor however, we seek to respond to all approaches for investment within two working days, and for those 95% not ready for our investment today, we endeavour to support them to find alternative funding sources, where possible. For those that do join our growing portfolios, we will typically take a position on the board of our equity investments and work with each management team to help them fulfil their growth ambitions. Within our Group we have established 'Mercia Nucleus' to support our investees and help accelerate their growth – this is a consolidated function with the expertise and connections to facilitate business development, leadership training, networking and access to an extensive talent pool of executives and non-executive directors. Our nationwide infrastructure of offices and meeting facilities, extensive Partnership Programme and access to our in-house legal expertise on investment transactions and exits, together provide the synergies that engender speed and consistency of growth. To see the results of Mercia's 'Complete Connected Capital' combined with 'Mercia Nucleus', within the context of our funds-first hybrid model, please refer to Julian Viggars' Chief Investment Officer ("CIO") review, starting on page 14.

Ambitious for our employees
"Culture eats strategy for breakfast" and in the current post-pandemic environment, there has never been a better truism; but culture does not stand proud of ambition, and making a real and equitable impact in the communities that we serve is fuelled by our strong desire to achieve success. Mercia's performance and building momentum is testament to the whole #OneMercia team that we have been able to attract to the Group since our 2014 initial public offering ("IPO"), with an increasing number moving up through our business from within. Mercia has now reached critical mass and is thus able to ensure that continuous development and career progression is offered, where possible, to each team member, to empower their collaborative nature and sustain their personal ambition within Mercia. We will not stand still, as we constantly look to improve how we can support, develop and motivate our staff; Mercia will only ever be as good as the talent we attract, develop and retain.

Our significant success that we have seen during the last two financial years, and our positive future prospects, have been made possible by the combined efforts of everyone connected with Mercia."

Jan Oosthuizen
Investment Manager,
VCT Funds

Alex Simpson
Investment Manager,
NEVF

Growing net asset value ("NAV") per share

Our hybrid investment model of supporting exciting SMEs, first through our managed funds, before selectively co-investing with scale-up funding from our proprietary capital, is now consistently contributing to our growing NAV per share. The recent full cash exit from Faradion, which followed less than 12 months after the successful OXGENE™ full cash exit, demonstrates a number of key points. We are typically exiting at prices significantly above our holding values – OXGENE at c.£18million above holding value in the previous financial year, and Faradion at c.£14million above the opening holding value in this financial year. These two exits alone generated c.£50million in cash back to our balance sheet, meaning that we are unlikely to come back to our shareholders to ask them for more money to fund the Group's direct investment activities. Being largely comprised of unquoted investments which are not susceptible to stock market volatility, as is currently occurring, we remain confident that our maturing direct investment portfolio will continue to play an important role in increasing NAV per share in the years to come. For more detail on Mercia's financial performance, please refer to Martin Glanfield's Chief Financial Officer review ("CFO"), starting on page 36.

Growing adjusted operating profit

Our commitment to Mercia's recently established progressive dividend policy is underpinned by Mercia's profitable and cash-generative fund management operations, which also enable us to continue to invest in internal system efficiencies and our talented staff. The long-dated nature of our managed funds enables us to have confidence in the sustainability of this dividend policy.

Combined, our direct investment success and our profitable fund management activities are positively contributing to our growing total shareholder return; our annual NAV per share increase plus our dividend yield.

Mercia's 20:20 three-year plan; one year in

From 1 April 2021, we set a new strategic target; on average, over the next three years we will seek to generate £20million of PBT per annum and 20% growth in AuM per annum. Accepting the likely uneven spread of this on a 'per annum' basis, we remain confident in achieving both objectives at the end of this three-year period. As these results show, one year in we have exceeded the average annual PBT target, achieving c.£27million profit before tax. Although Mercia's AuM is not open-ended, we have experienced higher than anticipated distributions to investors, ironically as a result of our excellent exit investment performance. Therefore, notwithstanding our overall positive portfolio companies' progress and the additional funds which have been raised and/or awarded to us by existing investors, the net effect is a small increase in AuM for the year as a whole, although shortly post year end we have raised c.£45million in new VCT and EIS capital to invest, taking our AuM to over £1billion for the first time.

A positive outlook in uncertain times

We all face an uncertain global outlook as the economic system absorbs inflation levels not seen for 30 years, climbing interest rates and the ongoing war in Ukraine. The world continues to retrench from globalisation towards a more nationalist economic agenda. For Mercia, we continue to have a positive outlook despite the macro challenges. Our purpose-led UK-only agenda of responsible investment across the regions, coupled with maturing equity portfolios across our asset classes in sectors less likely to be adversely impacted by Brexit, supply chain issues and sanctions, together with our increasing investment performance, place us in a positive position as we look to further scale our assets under management and, with it, continue to grow total shareholder return.

Our significant success that we have seen during the last two financial years, and our positive future prospects, have been made possible by the combined efforts of everyone connected with Mercia. I would therefore like to express my sincere gratitude to the amazing portfolio companies that we have the privilege to support. As a Group, we are also very appreciative of the growing belief in Mercia from our third-party fund investors, and both VCT and Mercia shareholders, that the UK regions can deliver value and returns.

Finally, I would like to thank Mercia's employees, without whom we would not have become who we are today: #OneMercia.

Dr Mark Payton
Chief Executive Officer

Axis Spine Technologies: case study

Spinal treatment without damage to vertebrae – a new way to treat disc degeneration, back pain and spinal deformities.

Mercia Chief Operating Officer Peter Dines had worked with experienced spinal implant executive, and now Axis Spine Technologies CEO, Jon Arcos twice before. When Arcos approached Mercia with his idea for a wholly new kind of spinal implant technology, we invested at an early stage.

Now, patients and surgeons are benefiting from Axis Spine Technologies' novel implants, which reduce vertebrae damage and reduce fitting complexity for surgeons.

- FDA approved
- 10 patients operated on
- Opened new office in Leeds
- 12 hires since first investment

c.£3.2m

Total investment

"The Axis Spine Technologies investment is a great example of Mercia drawing on its industry expertise and knowledge to support founders at a very early stage.

We worked alongside CEO Jon Arcos to build Axis Spine from its earliest days to develop the business plan and adapt it each time the business hit growth milestones that warranted subsequented rounds of capital investment.

It is a pleasure to see a business that began as an idea is now a next-generation, FDA-approved spinal implant that is being successfully used by surgeons all over the world to improve the outcomes of patients."

Peter Dines
Chief Operating Officer

Strategy

Mercia's hybrid investment model

Susan Devine
Financial Controller

investees

Wayne Thomas
Managing Director,
Private Equity Funds

Sustainable growth

We have continued to scale our platform to meet the needs of our entrepreneurs. Our proven hybrid business model allows us to be proactive in supplying seed investment funding through Series B and secondary funding. The intention is to help the most promising enterprises to scale up. Our pipeline consists of new companies as well as proven success stories from within our portfolios. All are served by our third-party funding. The operational expertise of our team and the support offered by 'Mercia Nucleus', which provides an infrastructure of knowledge and good governance, nurture these businesses until we selectively invest our proprietary capital. This allows us to identify and deliver future direct investments. These ventures, once successfully realised, enable us to offer an attractive set of returns to our investors, which underpins our progressive dividend policy.

Working on a local scale to gain global market share

Balance sheet

Typically up to £10m

From our balance sheet, we use our proprietary capital to invest in the most promising businesses within our third-party management funds. Investing on a selective basis ensures that follow-on capital is deployed at the right time, to the right businesses, to enable these enterprises to reach their full potential. With our robust liquidity and strong syndication partnerships, we can afford to take a medium to long-term view.

£119.6m

Value of direct investment portfolio

See more on page 26.

We invest exclusively in the UK

Our teams are conveniently based in the following eight regional locations across the UK.

Newcastle	**Preston**	**Leeds**
Manchester	**Sheffield**	**Bristol**
Henley-in-Arden	**London**	

Venture
£100k–£10m
Across the UK, from proof-of-concept to scale-up, we invest in fast-growth Life Sciences, Digital Entertainment, Software, Hard Tech, Deep Tech and tech-enabled businesses that share our ambition for success.

c.£592m
FuM
See more on pages 22 and 23.

Private equity
Typically up to £10m
We support small businesses, in underserved markets, with the investment capital they need to pursue their growth and expansion plans. From buyouts to buy-ins, from cash-outs to growth capital, we have a track record of delivering value-creation. Amongst our goals is to facilitate positive local economic impact.

c.£48m
FuM
See more on page 24.

Debt
£100k–£1m
Mercia supplies debt finance to established profitable businesses – often working alongside our other funds. Our structured lending solutions can be used to preserve equity. Increasingly, in these post-pandemic times, they are being leveraged for corporate activity as businesses focus on recovery, growth and expansion.

c.£118m
FuM
See more on page 25.

Engaged investment
We are much more than the sum of our parts. Our use of 'Complete Connected Capital' pinpoints and defines the right capital within the required timeframe for the firms we invest in. It allows us the opportunity to help assemble the most talented, creative and experienced individuals for each investee company. It also facilitates access to investment structures that harness the power of our immense, experienced commercial and non-executive networks. The Mercia doctrine of interconnectivity delivers value beyond just the benefit derived from our overlapping pools of capital.

Seamless collaboration allows us to be responsive and flexible. With eight regional offices, we retain a strong presence across the UK. We have digitally reenergised our systems and routines to offer both immediate engagement and in-person support. *None of our investees are more than* two hours away from one of our investment teams. This allows both Mercia and our portfolio companies to positively embrace a changing and collaborative investment environment.

Simplified deployment and streamlined digital processes support deal origination in today's competitive landscape. They enhance the speed of our response, expand the breadth of our coverage and increase our investment cadence – whilst also refining our customers' experience.

Greater scalability and reliability results from cross-connected teams sharing data and transactions, whilst working together to design bespoke capital solutions. They have, over time, fostered a critical mass in our key thematic areas. Our large network of non-executive directors, in-market networks and our own scaling platform ('Mercia Nucleus') drive a solid partnership of growth with all of our investees.

A value-based culture and a shared desire for responsible investing define *the people who are at the heart of* Mercia. We have strengthened our commitments and have developed an excellent set of ESG principles in-house. They are intrinsic to our paradigm for business growth and expansion, and have encouraged us to increase our focus on the long-term environmental and societal returns of purpose-led businesses.

Value creation

#OneMercia
120
Invested and inspired employees ambitious for long-term success

New investments this year
95
Experienced 'deal-doers' across all of our asset classes

Investment returns
c.£155m
Realised across 30 full or partial exit events

"An excellent year of realisations for both Mercia's managed funds and direct investment portfolio."

Chief Investment Officer
Julian Viggars

exciting

£19.4m

Total cash proceeds received from the Faradion direct portfolio realisation

Mercia's 'funds-first' business model is proven

It is always interesting to reread my previous CIO reports when starting to pull together the current one. Last year I did so with a sense of optimism for the year ahead and, without doubt, that positivity was well placed.

Over the last financial year, across the Group's equity components, we have realised c.£155million from 30 companies, delivering an average return of 3.1x. This is an excellent performance, and when taken together with Mercia's 2021 results, we have realised over £250million of cash on behalf of individual and Limited Partner ("LP") investors alongside our own balance sheet. This in turn has had positive effects on the NAV of both Mercia Asset Management PLC and our Northern VCTs, as well as profits from performance fees resulting from a number of these investment performance successes.

Direct investments: portfolio-wide progress, breakout at nDreams

The table below lists Mercia's top 20 investments by fair value as at 31 March 2022, including the net cash invested, realisation proceeds, realised gains, fair value movements and the fully diluted equity percentage held.

	Year of first direct investment	Net investment value as at 1 April 2021 £'000	Net cash invested year to 31 March 2022 £'000	Investment realisations year to 31 March 2022 £'000	Realised gains year to 31 March 2022 £'000	Fair value movement year to 31 March 2022 £'000	Net investment value as at 31 March 2022 £'000	Percentage held as at 31 March 2022 %
nDreams Ltd	2014	17,726	1,301	–	–	6,734	**25,761**	33.2
Intechnica Group Ltd	2017	9,996	1,531	–	–	2,884	**14,411**	24.1
Voxpopme Ltd	2018	8,845	1,500	–	–	166	**10,511**	17.6
Impression Technologies Ltd	2015	8,622	1,750	–	–	–	**10,372**	67.3
Medherant Ltd	2016	8,105	534	–	–	350	**8,989**	33.1
Warwick Acoustics Ltd	2014	4,255	1,039	–	–	1,012	**6,306**	40.0
Ton UK Ltd*	2015	4,913	660	–	–	501	**6,074**	29.9
VirtTrade Ltd**	2015	2,812	1,096	–	–	1,479	**5,387**	40.6
Locate Bio Ltd	2018	3,006	1,664	–	–	188	**4,858**	18.1
Invincibles Studio Ltd***	2015	3,553	–	–	–	1,047	**4,600**	39.0
Eyoto Group Ltd	2017	1,813	1,147	–	–	–	**2,960**	15.7
W2 Global Data Solutions Ltd	*2018*	*2,300*	*200*	–	–	–	**2,500**	*16.3*
Sense Biodetection Ltd	2020	945	909	–	–	625	**2,479**	1.6
sureCore Ltd	2016	2,417	–	–	–	–	**2,417**	22.0
Edge Case Games Ltd	2015	2,300	–	–	–	–	**2,300**	18.7
PsiOxus Therapeutics Ltd	2015	2,407	–	–	–	(627)	**1,780**	1.4
Forensic Analytics Ltd	2021	–	1,750	–	–	–	**1,750**	8.9
MyHealthChecked plc	2016	4,488	–	–	–	(2,856)	**1,632**	13.1
*MIP Discovery Ltd*** **	*2020*	*302*	*1,147*	–	–	–	**1,449**	*10.2*
Pimberly Ltd	2021	–	1,375	–	–	–	**1,375**	5.6
Faradion Ltd	2017	5,693	738	(16,309)	9,878	–	–	–
Other direct investments	n/a	1,722	43	–	–	(118)	**1,647**	n/a
Total		**96,220**	**18,384**	**(16,309)**	**9,878**	**11,385**	**119,558**	**n/a**

* Trading as Intelligent Positioning

** Trading as Avid Games

*** Formerly Soccer Manager Limited, prior to a change in registered name to Invincibles Studio Limited in March 2022

**** Formerly MIP Diagnostics, prior to a change in registered name to MIP Discovery Limited in May 2022

Ashwin Kumaraswamy
Investment Director

Direct Investment activity – positive progress across several key direct assets and a growing pipeline of potential new direct assets emerging from our managed funds.

Our proprietary capital has three discrete functions; selective direct investment mainly into existing managed fund portfolio companies, as a minority limited partner in seeding strategically relevant managed LP funds, and to fund acquisitions which will accelerate the Group's growth objectives and enhance shareholder value.

One year into the Group's three-year 'Mercia 20:20' strategic plan, the direct investment portfolio is developing increasingly well and we are optimistic of more to come. We typically look to build direct holding stakes of between 10% and 30%, and this, combined with our managed fund positions, gives Mercia a degree of influence over the development of these young companies.

As at 31 March 2022, the value of the Group's direct investment portfolio was £119.6million (2021: £96.2million). This reflects an upward fair value movement of £11.4million (2021: £10.1million) and net cash invested of £18.4million (2021: £15.4million), less the realisation of Faradion, which accounted for £5.7million of the total opening portfolio fair value.

Faradion was sold in January 2022 to India's Reliance New Energy Solar Ltd, a wholly owned subsidiary of India-based Reliance Industries Ltd, for £100.0million. Total cash proceeds back to Mercia's balance sheet of £19.4million resulted in a realised gain of £9.9million, generating a 4.4x return on Mercia's direct investment cost of £4.4million and a c.72% internal rate of return ("IRR") since the first direct investment in 2017.

The sale has also generated combined cash returns of c.£32million on a total investment cost of £3.6million for Mercia's managed funds, delivering fund IRRs of between c.30% and c.72%. Mercia has proactively supported Faradion throughout its development, including representation from Mercia's Investment Director, Ashwin Kumaraswamy, as a non-executive director on Faradion's board from inception through to exit.

We continued to support our foremost direct portfolio businesses with £11.1million of the £18.4million total being invested across our top 10 direct investments.

We made two new direct investments during the year. In October 2021, we completed a £1.8million direct investment into Forensic Analytics Ltd, alongside a £2.7million investment by our Northern VCTs. In November 2021, Mercia's third-party managed fund portfolio company, Pimberly Ltd, completed a £4.3million funding round to expand into the US market and accelerate its growth in the UK.

Mercia invested £1.4million of capital from its own balance sheet, alongside a further £2.9million investment by the Northern VCTs. Both new assets are performing well. Within our shadow portfolio of existing fund assets being tracked are Axis Spine Technologies Ltd, Nova Pangaea Technologies (UK) Ltd and Uniphy Ltd, a business developing smart surface technology at the human/machine interface. We expect a number of exciting new additions to the direct portfolio in the current year.

For the year as a whole, we recorded fair value uplifts in 10 of our direct investments, the largest being £6.7million for nDreams Ltd. The virtual reality ("VR") market has grown significantly against a backdrop of greater hardware penetration at affordable prices and renewed investment impetus by Oculus, Sony and others. nDreams completed a number of important steps in its development with new game releases and its push into third-party publishing. In March 2022, the company secured £20.0million of new investment from European games investor Aonic AB. We look forward to working with our new investment partner in the next phase of nDreams' growth as the company develops further intellectual property ("IP"). Its newest VR title, which is based on the Ghostbusters intellectual property in conjunction with Sony Pictures Virtual Reality, was introduced by Mark Zuckerberg in April 2022 at the Meta Quest Gaming Showcase.

Other operational highlights within this sector include Invincibles Studio Ltd (formerly Soccer Manager Ltd), growing revenues 40% year-on-year and VirtTrade Ltd t/a Avid Games, with more than threefold revenue growth over the course of the year. The revenue growth of both businesses has been achieved off the back of new game releases and the increasing awareness of their games worldwide.

Intechnica Group Ltd saw strong progress with a fair value uplift of £2.9million. After raising £8.5million from new and existing investors in December 2021, Intechnica recently completed the demerger of its exciting bot management cyber security business, Netacea. Mercia now holds stakes equal in value to its pre-demerger holding value.

We are continuing to see our core companies grow their revenues and progress their business models, in many cases underpinned by positive market sentiment and longer-term trends. We have seen accelerating commercial interaction and developments across our Deep Tech and Manufacturing assets, in particular Warwick Acoustics Ltd, which is engaged in discussions with a wide variety of automotive original equipment manufacturers ("OEM") and has successfully demonstrated its electrostatic acoustic panel technology within a premium marque vehicle for a globally recognised car brand. The technology was positively profiled by Autocar magazine earlier this year with the listening experience described as "astounding".

Impression Technologies Ltd has made advances, with licence partners making their first sales, and we are particularly excited about the company's new developments in battery boxes for electric vehicles and the use of recycled aluminium in the company's HFQ® pressing process.

Our Life Sciences portfolio also had a strong year. Locate Bio Ltd continues to progress well with its pre-clinical trials and, following our syndicated investment in February 2022, MIP Discovery Ltd is well funded to deliver its technical and commercial milestones.

Whilst much of the progress seen is due to a maturation of these businesses in their markets, we have also worked hard to add new complementary skills into these companies, including high-profile chairs being added to the boards of nDreams, Netacea and Impression Technologies, plus senior appointments at Intelligent Positioning and MIP Discovery.

'Mercia Nucleus' – the evolution of value-add services across the portfolios

We have expanded Mercia's value-add offering to our portfolio companies through the addition of other services that include talent search, growth partner counsel, non-executive appointments and knowledge sharing. This area of our business is something we have continued to invest in to increase the value added to our portfolio companies through hands-on support and development. Adding value is at the heart of what we do and as such we have formalised these performance drivers into what we call 'Mercia Nucleus'.

Our 'Mercia Nucleus' team has been busy throughout the year with 41 appointments made into portfolio companies.

Alongside this we continue to forge new co-investor relationships, with BGF, Aonic Group, Vitruvian and Aramco Ventures becoming new partners across our direct and fund assets.

Chief Investment Officer's review continued

Our equity performance

IRR	31 March 2022	31 March 2021
Proprietary capital	**16%**	15%

TVPI *	Venture	Private Equity	Venture	Private Equity
Institutional Funds				
Legacy	**193%**	**132%**	138%	142%
Current	**111%**	**109%**	98%	87%
Retail EIS Funds				
Legacy	**139%**	**n/a**	123%	n/a
Current	**96%**	**n/a**	102%	n/a

VCTs (pence per Ordinary share)	NAV **	Total return **	NAV	Total return
Northern Venture Trust	**68.4**	**252.9**	79.8	254.3
Northern 2 VCT	**64.4**	**196.8**	71.3	196.2
Northern 3 VCT	**97.9**	**206.3**	107.0	206.4

* TVPI % defined as; distributions + total value + cash/capital paid in

** VCT Total return growth over 12 months, based on 31 March 2022 cumulative total return, of -0.6% to +0.3%

We use different performance measures across our suite of asset classes. For our direct portfolio, IRR is adopted as our proprietary capital is also used for other activities. As at 31 March 2022, the direct portfolio IRR had increased to c.16%, largely following the successful sale of Faradion.

We measure 'Total Value to Paid In' ("TVPI") across our Regional and Private Equity ("PE") funds as it shows total value returned and accruing to investors after fees; this naturally increases over time as more capital is returned and the portfolio values grow. Our legacy Venture funds, at a TVPI of 193%, are significantly up year on year as a number of assets were sold at higher values during FY22. Our newest PE fund saw a recovery in asset values as the impact of the pandemic on its portfolio businesses began to recede.

For our VCTs, 'total return' includes cumulative dividends paid alongside current asset value to give a true total performance measure. It has been principally flat year on year due to sharp price weakness across the listed part of the VCT portfolios in the final quarter of the financial year.

Our strong overall investment performance enables us to raise additional funds, and we were allocated a further £31.4million this financial year from additional contributions to the Northern Powerhouse Investment Fund ("NPIF") Equity and Debt funds and our Midlands Engine Investment Fund ("MEIF") Proof of Concept and Early Stage Fund by BBB. Alongside this, our Enterprise Investment Scheme ("EIS") team raised new funds totalling c.£16million, in addition to Northern VCT investors re-investing c.£6million of dividends paid during the year. Since year end, £40.0million of new funds were raised by our Northern VCTs, together with c.£5million raised by our first Knowledge-intensive Impact EIS Fund. At the year end, we had c.£297million of liquidity across all our funds and balance sheet.

Asset class	AuM 1 April 2021 £'m	Private Investor inflows £'m	Public Sector inflows £'m	Performance £'m	Distributions £'m	AuM 31 March 2022 £'m	Post year end inflows £'m
Venture	600	22	20	30	(80)	**592**	45
Private Equity	54	–	–	(2)	(4)	**48**	–
Debt	110	–	11	–	(3)	**118**	–
Total FuM	764	22	31	28	(87)	**758**	45
Proprietary Capital	176	–	–	28	(3)	**201**	–
Total AuM	**940**	**22**	**31**	**56**	**(90)**	**959**	**45**

Sourcing deals from all regions of the UK

At Mercia we have 74 investment professionals spread across the regions, and have further scaled our reach by opening a new office in Bristol to strengthen our presence and growth in the South West of England along the M4 corridor and into Wales. Fund Principal Julian Dennard is building his team and has already sourced deals in Cardiff, Exeter and Bristol. We have also expanded our teams in Manchester and London, and continue to provide nationwide coverage, completing new investments from North Shields to Shoreditch, from a wide variety of sources.

Our managed funds as at 31 March 2022 totalled c.£758million. During the year, we invested £105.7million into 148 businesses, including 95 new companies.

Venture

Our Northern VCTs transacted nine investment disposals across both older legacy assets and newer early-stage portfolio companies. Exits across the year included the VCT's holdings in Intelling Group Ltd, Project Glow Topco Ltd t/a Currentbody.com and Mojo Mortgages Ltd, plus partial disposals of Oddbox Ltd and musicMagpie plc. The overall performance was impacted by a reduction in the valuation of listed AIM investments in the quarter to 31 March 2022.

Case study: Nova Pangaea One process to produce two products: one is carbon neutral and one carbon negative.

Sustainable bio-based products converted from agricultural wastematter
Nova Pangaea's REFNOVA technology converts non-food derived biomass into two high-value sustainable products: NOVASUGAR and NOVACHAR.

NOVASUGAR is a fermented alternative to bioethanol that makes advanced biofuels such as Sustainable Aviation Fuel ("SAF"). NOVACHAR is a sustainable alternative to steel fuel coke that can be used to make green steel and is a carbon-negative soil enhancer.

REFNOVA reduces the dependency on fossil-based products. In doing so, Nova Pangaea's technologies support the quest for global net-zero and decarbonisation.

c.£7.3m

Total investment

- Development plans ran for 360 hours to prove continuous capability
- Project with British Airways and LanzaJet to develop SAF funded by the Department for Transportation
- Mercia introduced the CEO and the team grew by 280% since the first investment
- Four proprietary patents expansion into US and Canada

There's a huge potential market for Nova Pangaea's products given the current appetite for Clean Tech solutions in the transportation and industrial sectors.

We have supported Nova Pangaea across multiple funding rounds since 2019. In that time, Nova Pangaea has constructed their development plant and demonstrated their unique REFNOVA process from their facility at Wilton International.

Nova Pangaea's process creates a second-generation carbon-neutral bioethanol as well as a carbon negative biochar. The unique dual output process utilises purely waste products and places Nova Pangaea at the forefront of the global shift towards decarbonisation and sustainability."

Joe Staunton
Investment Associate,
NPIF

'Mercia Nucleus' case study: Pure Pet Food

Yorkshire-based online organic pet food company, Pure Pet Food Ltd, was established in 2012, receiving investment from the Northern VCTs and NPIF. To support the company's two founders, Mercia sourced and placed non-executive chair, Miles Hill, as the catalyst to build out a wider executive and senior management team to facilitate the rapid growth of the business. After successfully outperforming its plan, the board identified a need to expand the business's digital footprint, particularly to leverage paid marketing channels. Mercia placed branding and marketing specialist Sarah Doyle as a non-executive director who was instrumental in reviewing and shaping the current operation identifying potential areas for improvement. Additional consultants, including financial directors and lean manufacturing specialists, were further provided by Mercia to support Pure Pet Food at key inflection points in the business's growth. Pure Pet Food's current revenue trajectory is nearly 100% year-on-year growth.

Lisa Ward
Head of Portfolio Resourcing

Mercia's EIS funds completed 19 transactions, with 11 follow-ons and eight new businesses. This was a strong year for EIS where we focused our capital and expertise in thematic areas. Strong returns and positive impact have come where we have supported and accelerated companies addressing societal needs. Our first Knowledge-intensive Impact EIS Fund that raised c.£5million will invest in high-growth businesses that generate a positive social impact, an area that has increasingly become an important driver of our investment decision making.

Our regional venture funds have also performed well. The North East Venture Fund ("NEVF") completed 16 transactions during the financial year, investing a total of £8.0million. This included a follow-on investment of £1.2million into Elmtronics Ltd, a business that was formed in February 2019 to supply, install and maintain electric vehicle chargers, and has since developed a software solution for remote monitoring. Having received an approach from a strategic trade acquiror, NEVF successfully exited the business in January 2022.

MEIF has had another solid year having invested £4.3million in 12 transactions. The Fund has continued to provide follow-on capital to its portfolio companies such as Aceleron Ltd and Locate Bio. Wherever possible, MEIF seeks to build strong syndications and new deals such as Black Country-based Givepenny Technologies Ltd and Chesterfield-based InVMA Ltd follow this philosophy and demonstrate the strength of Mercia's regional network in finding and investing in thriving regional businesses.

NPIF Equity invested £14.0million in 24 transactions, including £8.2million into eight new portfolio companies, such as the Leeds-based legal technology business, Just: Access Ltd, which was founded by a female barrister.

Tees-based Clean Tech business Nova Pangaea has created a process to enable the conversion of discarded plant biomass into advanced biofuels, including aviation fuel and other sustainable biocarbons, and which is led by experienced CEO Sarah Ellerby. During the year, NPIF Equity benefitted from the sale of Faradion, a joint investment with Mercia's balance sheet. Sheffield-based Clean Tech business Libertine PLC's AIM flotation in December raised gross proceeds of £9.0million for investment in continued technical and commercial development.

Three investments were made during the year by Mercia's PE team. These three transactions saw a total of £9.3million invested into UK Landscapes Holdings Ltd, a specialist landscaping and grounds maintenance business, based in Cheshire, that serves blue-chip companies such as Asda, John Lewis, Shell and Santander plus Coventry-based UK Mail Digital Ltd to support its buy-out from DHL Parcel UK Ltd. ParkVia Ltd, an online car parking booking platform, received follow-on investment as it emerged well out of the COVID-19 pandemic and is now performing ahead of budget.

Mercia's Debt funds' team saw a slight reduction in enquiries during the year, completing 63 transactions (2021: 70), investing a total of £13.4million, of which £10.3million was provided to 48 new businesses. The Group announced a further extension of its NPIF debt mandate, which was increased by £10.9million, with the investment period being extended to December 2023. In August 2021, Mercia was also accredited to deliver loans via the government's Recovery Loan Scheme ("RLS"). Mercia's vastly experienced Debt team continue to support profitable SMEs, mainly across the North of England.

We have continued to promote our 'Complete Connected Capital' with co-investment by various Mercia-managed funds and Mercia's balance sheet, including into Intechnica, Forensic Analytics and Pimberly.

Post period events

Direct investments Avid Games and Impression Technologies both received follow-on funds totalling £1.0million, and a further £0.2million has been invested into both Eyoto Group Ltd and W2 Global Data Solutions Ltd, following continuing commercial and technical progress. Overall, good progress is being maintained across our direct portfolio.

Summary and look forward

This has been an incredible year for Mercia in what again has been a volatile period, where the global environment, working practices and sentiment have continued to change unpredictably. From coming out of lockdown in early 2021, through new levels of freedom last summer and then the re-appraisal with Omicron in the autumn, our investee companies have also had to deal with supply chain issues and, more recently, serious military conflict, rising prices and the uncertainty that these matters bring.

From an investment perspective, we have and will continue to steer our activity toward those areas where we see longer-term structural changes and growth. Mercia's investment model is now delivering, with much more to come. We typically hold direct investments for three to seven years ahead of a trade sale or IPO. With the creation of a shadow portfolio, being tracked from the over 260 venture businesses within Mercia's managed-fund portfolios, we can add the right investment at the right time to ensure balance across sector and stage of growth, and at the right value inflection point.

Our businesses in cyber security and the intelligent use of big data have all grown and we expect this will continue, as have those involved in the identification, selection and welfare of staff in the workplace. The pace of change in moving to cleaner energy, as witnessed by innovations in the electric vehicle sector, is remarkable. We are seeing significant activity as traditionally slow-moving OEMs look for an 'edge' for consumers, alongside weight and cost savings, giving added momentum to Warwick Acoustics, Impression Technologies and our other Deep Tech fund assets, that innovate around the human/machine interface.

And of course, in Digital, where consumers continually search for increasingly 'better' entertainment and more efficient ways to address their healthcare needs; our Games businesses and Digital Healthcare companies will all continue to prosper.

As always, I would like to thank all of the talented investment and operations team members at #OneMercia for their efforts throughout another challenging year. In generating over £250million in realisations over the past two years, we have proven our business model and investment credentials as a proactive specialist asset manager. Given our mix of assets across sectors and, in particular, our exposure to the growth themes identified above, I remain optimistic for the year ahead.

We must not ignore the chill winds of inflation, ongoing supply chain issues and the uncertainty caused by military conflict. However, Mercia's funds-first business model, our experienced and hugely committed #OneMercia team, plus Mercia's strong liquidity across both funds and balance sheet, give me confidence that we will continue to thrive, regardless of whatever the year ahead throws at us.

Julian Viggars
Chief Investment Officer

Peter Dines
Chief Operating Officer
Managing Director,
National Venture Funds

The Group's overall strategy is to make a positive impact through investment in purpose-led companies."

National Venture

National impact that delivers international success
The strength of Mercia's national reach lies in the combined quantum of c.£161million that both the EIS and VCT funds have available to provide to regional start-ups and scaling SMEs, and equally in our successful exit track record. Mercia's legacy of success from which these Mercia funds draw their authority is underpinned by two simple proof points: our consistent successful exits and record fund raising this year. These clear demonstrations of achievement reinforce the veracity of our claim and will shape the continued growth of our portfolio businesses.

During the year, our EIS funds raised c.£16million, and shortly post year end, our VCTs raised £40million and our EIS team raised c.£5million for our first Knowledge-intensive Impact EIS Fund. This is a testament to how our increasingly *successful track record of delivering* attractive realisations supports Mercia's strategy of scaling our AuM. This financial year saw 12 significant disposals across Mercia's EIS and Northern VCTs.

A successful exit from Northern VCT portfolio company Intelling, a Manchester-based communications company, was realised following a sale in October 2021, generating £12.1million, a return of 3.9x to the VCTs. In addition, a partial exit that delivered a substantial return was Oddbox, a subscription delivery business supplying households with fruit and vegetables. Burda Principal Investments led a funding round that provided significant funding to support Oddbox's national expansion and proceeds of £3.2million, a return of over 10x, back to the VCTs.

Noteworthy exits that provided substantial returns to Mercia's EIS investors included two digital 'matchmaking' platforms. Snappy Shopper Ltd, a technology company that connects consumers with local businesses, delivered a return of 8x. At the same time, In-Part Publishing Ltd's sale to Inova saw this digital academia-industry matchmaking platform return 4x. Two strong realisations came from the Digital Entertainment sector; Genba Digital Ltd, *a digital games distribution platform* acquired by Azerion Group, providing a 3x return, and nDreams which returned 7.5x on the back of a £20.1million third-party investment round into the business from Aonic.

Significant pipeline strength remains with businesses in the Life Sciences and Technology sectors. The Group's overall strategy is to make a positive impact through investment in purpose-led companies. The companies we are helping *to create out of world-leading research* also ensure that our role as venture builders will contribute to a sustainable, healthier and tech-enabled future.

c.£400m

FuM

Regional Venture

A venture-backed future
Providing finance to SMEs is the catalyst to a functioning society. This has been achievable through Mercia's activities in developing and carefully co-ordinating the provision and deployment of capital to the regions. We now manage over £150million in third-party regional funds and have invested £26.3million into 48 businesses through NPIF, MEIF and NEVF during the year ended 31 March 2022. The distribution of capital to SMEs has enhanced commercial vitality and had a positive societal impact across the Midlands and North of England.

As we continue to strengthen our role as a leading provider of regional venture capital, we have ensured that our portfolio has become more diverse and scalable. This has been facilitated by the fluidity of our 'Complete Connected Capital' model and our increasing focus on purpose-led businesses. Our investments are not concentrated in one sector, yet many of these SMEs are the catalyst for a tech-enabled future.

Our investment philosophy, patience and long-term vision have proved successful in emerging sectors and technologies. Our investment strategy that culminated in NPIF equity investing in Deep Tech assets such as Sheffield-based Faradion has delivered impressive results – the ultimate sale to Indian conglomerate Reliance being testament to this regionally led, sector-thematic approach.

The flotation of Libertine Ltd on AIM, which achieved a £27.0million market capitalisation, is yet another business that received several rounds of investment through NPIF.

Our range of capital investment in accelerated growth sectors demonstrates our determination to embrace technology used 'for good'. TheLogically Ltd, a Yorkshire-based technology company that develops advanced artificial intelligence to fight misinformation online, is a key player on the international stage. During the financial year, the business completed a $24.0million funding round with Vitruvian Partners and Amazon's The Alexa Fund becoming shareholders in the business.

Mercia's investment strategy, which is to support local communities to reimagine existing industries, plays out in regions such as South Yorkshire, and Humber and Teesside. Businesses such as Tribosonics Ltd, which received its first investment from Mercia in 2020, is a prime example of how a local business that uses university research has created products with profound impact. Tribosonics designs and produces smart sensors to assimilate data to support the manufacturing, power generation and transport sectors, making them more efficient and sustainable. Similarly, in the North East, Mercia has been instrumental in finding and investing in diverse businesses in line with the region's sustainable entrepreneurship. One of these fast-growth businesses is Elmtronics Ltd, a company working in electric vehicle charging that having received several rounds of funding from NEVF since November 2020 was acquired by Mer, part of Europe's largest renewable energy supplier, Statkraft.

Our ability to combine expertise and deep-sector and industry experience around our portfolio of businesses drives positive momentum, even during the most challenging macroeconomic and geopolitical times. This approach is amplified by our ability to follow our money, either with our own capital or through structured co-investment. The intimate working relationships that our investment team has with our portfolio businesses, alongside the knowledge framework that consists of our non-executive network, have helped secure the future growth of our portfolio and exit strategies. Therefore, as we face the year ahead, we do so with the confidence that comes on the back of a strong year of realisations and from having a dynamic investment team that has mapped out the key sectors they believe will represent the best venture-backed opportunities in the future.

c.£192m

FuM

Our investment philosophy, patience and long-term vision have proved successful in emerging sectors and technologies."

Will Clark
Managing Director,
Regional Venture Funds

Wayne Thomas
Managing Director,
Mercia Private Equity Funds

We work in partnership with profitable, cash-generative businesses that have attained a strong market position, and help them to maximise and sustain their local economic impact."

Private Equity

More than just investment
Supporting the growth of exceptional enterprises that generate economic and societal benefits for the communities they serve is central to our mission at the Mercia Private Equity Fund. Businesses that want to do 'more' are the source of our inspiration and future vision. Designed to optimise growth and diversification potential within the region, our Private Equity fund invests in profitable, later-stage, purpose-led SMEs across the UK. As part of our investment criteria, we start by identifying management teams that share a common set of goals and values with us. We work in partnership with profitable, cash-generative businesses that have attained a strong market position and help them to maximise and sustain their local economic impact.

c.£48m

FuM

Our traditional focus is on cost effectiveness and operational efficiency. Supporting a business such as UK Landscapes demonstrates the more typical conventions of our investment strategy, but we also believe that technology-enabled growth and disruption can be strong drivers of value. Our continued support of ParkVia and the investment that leveraged the buyout of imail comms serve as examples. They demonstrate that in situations where digital innovation can transform industry, we are able to source the insurgents. We can also support the incumbents, helping to reinforce their competitive advantage.

Our exit from Blue-i Group Ltd, completed in March, generated an overall return of 1.6x cost. Continued improvement in the trading prospects of many of our selected portfolio companies has resulted in an upgrade in valuation across the portfolio.

The confidence in our expertise displayed by local authority pension funds has been justified within a relatively short timeframe. The historical performance of our funds coupled with the continued maturation of our 'Complete Connected Capital' solution have enabled our strong value-based Private Equity fund to deliver impactful investments. This is of vital importance to our LPs and will be the basis of our next fund-raising strategy. A small enterprise might initially require a small investment, but as we are not constrained by a timeline before exit, we can commit to a long-term plan of value creation. This will, of course, allow us to generate the best returns for our investors.

The long-term economic effects of COVID-19 have yet to be determined. Global inflation and supply chain disruptions are coupled with a shortage of skilled labour. These, and other current factors, have shaped an investment landscape that requires new forms of value creation. We have the expertise, experience and resources needed to carry this out, and can invest across a broad range of economic sectors and asset classes. This presents new prospects and opportunities for us.

Debt

Refocused on growth
As businesses seek to recover from the pandemic, Mercia's Debt team reports a resurgence of corporate activity. Following the disruption of COVID-19, management buyouts, acquisitions and refinancings are changing the profile of recent applications.

With many traditional routes to finance not available to regional SMEs, the government's RLS was instrumental in helping companies navigate COVID-19 and survive unprecedented trading conditions. This came on the back of the Coronavirus Business Interruption Scheme ("CBILS"), both of which Mercia was accredited for via the NPIF. But now, it is time for those businesses to refocus on recovery and to use debt as an instrument for growth, not simply survival. With RLS currently closed and the high street banks inwardly focused, securing funding has become more challenging for many commercially viable businesses. In contrast, Mercia is seeing an upturn in applications expected to continue in the year ahead.

The agility and diversity of the UK's regional SMEs require a lender that can respond quickly and with a tailored financial solution. In addition, adapting to trading outside of the European Union, improving productivity, digital innovation or transitioning to a new net-zero economy requires a specialist investor with the breadth and depth to support these regional businesses.

During the year, a further commitment was awarded by the BBB to the NPIF debt fund mandate of £10.9million. Combined with SME loans, Mercia's dry powder is now over £50million. Leveraging this capital alongside Mercia's wide range of funding and investment options strengthens our position in the market as a dominant funding partner.

Over the last five years, we have funded over 300 businesses across the UK's regions, which has helped bridge the funding gap between the amount that banks and other funders are able to provide to businesses and the amount they require for growth. This type of finance is crucial to high-growth firms, which have the potential to provide jobs and economic growth.

Leveraging this capital alongside Mercia's wide range of funding and investment options strengthens our position in the market as a dominant funding partner."

c.£118m
FuM

Paul Taberner
Managing Director,
Mercia Debt Funds

Angela Warner
Managing Director,
Mercia Investments

Proprietary Capital

Another strong performance

One year into its three-year 'Mercia 20:20' strategy, the direct investment portfolio continues to excel, with more to come. We typically aim to build direct holding stakes between 10 and 30%. Combined with our managed fund positions, this gives Mercia significant influence over the development of these investments, which includes utilising our in-house 'Mercia Nucleus' to add high-profile members to our portfolio boards and management teams.

Keeping to Mercia's hybrid investment model, all the direct investments are shared with Mercia's managed funds, which are often nurtured for many years before being transferred across as a direct investment. As in the previous year, we have seen significant fair value movements, with all the balance sheet realisations to date being sold above holding values, generating a portfolio IRR of c.16% since Mercia's IPO in December 2014. The balance sheet portfolio continues to mature and strengthen, comprising businesses with modest capital needs. With its diversification across sectors, this portfolio is soundly set for whatever the future brings.

We focus on four distinct sectors that include Deep Tech/Hard Tech, Life Sciences and Medtech, Software and Digital Entertainment and Gaming.

More broadly, as the emphasis of global investment moves away from Software and Digital Entertainment, we see Gaming/VR and Deep Tech/Hard Tech as important areas of development, and sectors that play to the strengths of the UK regions. One company that exemplifies this is Faradion. This Sheffield-based SME developed and commercialised a novel battery technology over the

£119.6m

Value of direct investment portfolio

With its diversification across sectors, this portfolio is soundly set for whatever the future brings."

11 years of our investment (11 years in the managed funds and five years as a direct investment). The sodium-ion batteries it developed have a markedly reduced environmental impact compared to conventional lithium-ion batteries due to the abundance of sodium.

The Faradion exit brought an additional £25.0million investment from Reliance New Energy Solar into Sheffield for Faradion's next phase of growth, keeping the business in the UK. In doing so, this exit delivered on our promise to create value in the UK's regions, while also delivering £19.4million in cash receipts for our direct investment portfolio alongside a further £32.0million in proceeds to our managed funds. This generated a 4.4x return on investment cost and a c.72% IRR for our direct holding.

Warwick Acoustics and nDreams are two other businesses that have caught the attention of commercial partners as well as investors.

Warwick Acoustics (40.0% direct holding stake) is increasingly recognised for its fit with car manufacturing, owing to its low power, flexible shape and lightweight sound systems.

The accelerated growth of nDreams continues in terms of both product releases and revenue, with this year's highlight being Mark Zuckerberg announcing the acclaimed Ghostbuster VR video game coming to Meta Quest 2 as a collaboration between nDreams, Ghost Corps and Sony Pictures Virtual Reality.

During the year, nDreams also benefited from a $35million investment from the Swedish games studio group Aonic, adding £6.7million of fair value movement for Mercia's 33.2% direct holding stake.

Other portfolio companies making good progress include: Invincibles Studio Ltd (formerly Soccer Manager Ltd), (direct holding of 39.0%) growing revenues 40% year-on-year; and Avid Games (direct holding of 40.6%), with a more than threefold revenue growth over the course of the year.

This investment model has been delivering good results. In the year, we have added Pimberly and Forensic Analytics from our shadow portfolio with a number of remarkable opportunities that are currently under consideration.

The Faradion exit delivered on our promise to create value in the UK's regions, while also delivering £19.4m in cash receipts for our direct investment portfolio."

£9.9m

Realised gain on the sale of Faradion

Accelerating our ESG journey

employees

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

Joanna Bayes
Fund Administrator,
VCT Funds

12%

Portfolio businesses that are purpose-led

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

In this section

Delivering growth **Engaging with stakeholders** **Investing in people**

An organic approach to responsible investment

Responsible investment is in Mercia's DNA. In 2014, our foundation had a clear purpose: to address the regional funding gap. This gap has, unfortunately, only widened in the subsequent years: London received 60% of all investments into the UK in 2014 and this increased to 75% by 2020. This disparity has only strengthened our resolve to lessen this gap and create value in the communities we serve.

First, we made a commitment to responsibly address the UK funding disparity and serve the UK's regions. We have recently formalised this foundational pledge which commits to responsible investment and all our efforts are based on and progress from it.

Because we are a mission-led business, we have organically gravitated toward businesses that make a difference to the regions and the wider global community.

The exit from Faradion in January 2022 demonstrates the efficacy of this approach in benefitting our stakeholders, as well as people and the planet.

Helping hungry customers to save the planet by fighting food waste

Oddbox

The subscription box that helps save the planet by fighting food waste. Oddbox rescues farm-fresh fruit and vegetables that could otherwise have gone to waste and delivers it straight to your door.

Northern VCTs invested c.£3m in March 2020

A third of the food grown in the world is wasted. In the UK alone, over three million tonnes of fruit and vegetables are wasted before they even leave the farm. And when the food is wasted, so is all of the water, energy and carbon that went into growing it in the first place. Much of the fresh fruit and vegetables grown is discarded if it is too 'wonky', too small, or the 'wrong colour' for supermarkets.

Oddbox buys this type of fruit and vegetables direct from farmers and delivers it to customers across the UK. They are supply-driven and only take what the farmers would otherwise discard.

Because of this, to date Oddbox has:

- Rescued 13,790 tonnes of fruit and vegetables
- Saved 1,519 million litres of water (the amount that 25,682 people drink in a lifetime)
- Prevented 15,365 tonnes of carbon emissions (enough energy to power 3,513 houses for a year).

Sustainability is at the core of everything Oddbox does. It makes deliveries in the evening to reduce the impact of emissions, provides zero-waste recipes and tips to customers and built an environmental impact calculator so they can tell each customer the difference they have made.

Oddbox is continuing to grow its customer base across the UK. And with each new customer it signs up, it's helping to tackle food waste and reduce our impact on the environment.

Jill Williams
Deputy Fund Principal
and Head of ESG

respectful

Delivering a positive social impact to the regions."

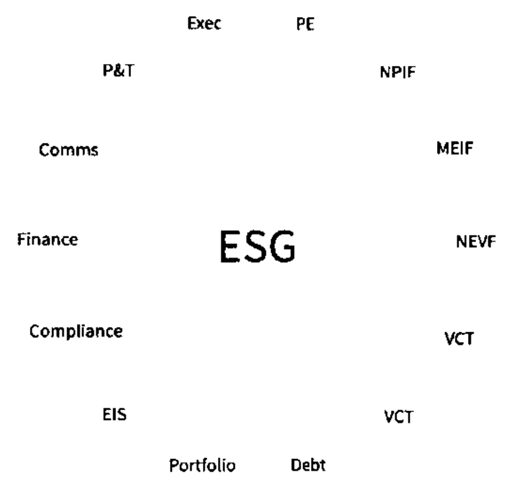
Responsible Investment Committee

Key considerations for FY23 and beyond

Increase engagement with portfolio companies on ESG issues

Continue focus on diversity and inclusion

Measure, monitor and communicate



A formal commitment to responsibility

To be a responsible investor is to act – internally and externally – in a manner which aligns with ESG principles in order to preserve the long-term health of society and the market.

Mercia has always aspired to be the first choice for investors, investees and employees. To do so, we create value in ways that exceed financial support, such as introducing experts into our portfolio companies to serve as non-executive directors in addition to implementing good governance measures. Our commitment to responsible investing is a further method by which we propose to create value beyond capital investment.

A responsible approach benefits people and the planet, as investors who adopt this methodology support impactful businesses that provide solutions to social and environmental challenges. Furthermore, this approach has strong remunerative potential. The kind of data analysis used to decide if an investment is responsible can also serve to identify risks and opportunities which would have otherwise gone unnoticed.

As a business with a mission, Mercia has traditionally practised responsible investment because it naturally aligns with our values as a purpose-led organisation. We have a rich legacy of investing in impactful businesses such as Faradion, The Native Antigen Company and OXGENE: the commitment to responsible investment we made over the last financial year reflected what we were already doing day to day.

Under this commitment, our first action was to establish the Responsible Investment Committee. The Responsible Investment Committee decided to initially focus on diversity and inclusion within Mercia in order to influence the dissemination of ESG principles throughout our portfolio.

We believe that by fostering positive values inside the organisation first, our team will carry them on to positively influence our portfolio companies. Our work so far has had some success in improving the visibility of Mercia as a responsible investor, since we have been recognised for our work in this area by external bodies over the past year.

What we have achieved

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

Melanie Reynolds
Portfolio Executive

Foundation of the Responsible Investment Committee
Mercia founded the Responsible Investment Committee in 2021 and made Jill Williams, the Deputy Fund Principal of Private Equity, our Head of ESG.

The Responsible Investment Committee is composed of representatives from all of Mercia's teams, including investment, finance, operations, compliance and marketing. We believe that diverse representation within the Responsible Investment Committee encourages the organic dissemination of its actions across all areas of our business. Additionally, diversity within the committee makes it a team that embodies inclusion while promoting it, rather than it being a distanced body that imposes rules from above.

Focus on diversity and inclusion
The Responsible Investment Committee's first initiative was to focus on diversity and inclusion within Mercia. The best way to promote diversity and inclusion in our portfolio companies is to demonstrate its benefits by effecting change internally first.

We focused on diversity and inclusion first for two main reasons:

1. Diverse teams make better decisions, as they are composed of a mix of characters with different life experience, whose perspectives can strengthen the decision-making process.
2. The promotion of inclusion and representation is correlated with improved performance, as people generally perform better when they feel a sense of belonging.

Improving gender diversity within the investment team was an early focus. Mercia has increased external hires and appointed women from across the business into the investment teams. Before the founding of the Responsible Investment Committee at the beginning of 2021, 17% of the investment team were women; as of March 2022, this has increased to 32%.

The Responsible Investment Committee are further reviewing Mercia's policies to ensure that they are inclusive to our LGBTQQIA+ colleagues. A current review is focusing on our maternity and paternity policies to ensure that they have the same applications for LGBTQQIA+ couples as heterosexual ones.

Engagement with the portfolio
Mercia is now including an ESG questionnaire in all investment agreements listing various actions to be implemented as a condition of investment. This is designed to positively foster the principle of responsibility within each company that we invest in. We require each portfolio to establish ESG policies relevant to its activities, which could include an anti bribery and corruption policy, a modern slavery policy, a diversity and inclusion policy, et cetera.

Portfolio businesses will be further encouraged to submit their responses to an ESG questionnaire to Mercia annually. We intend that this mandatory questionnaire will keep ESG on the investee company's agenda and the responses will be reviewed regularly by management so that we can monitor our portfolio businesses' ESG progress, actions and improvements.

Team training
The Responsible Investment Committee has implemented an internal training programme that supports our investment team in carrying ESG principles forward to our portfolio businesses. Investors typically receive training every two months to deepen their understanding of its principles. All training sessions are then uploaded to our e-learning platform to serve as reference documents going forward.

Investing in Women Code
Our strategy to promote an open and inclusive culture within Mercia is correlated with our relation to the market. Mercia is a signatory to the Investing in Women Code, which means that we are committed to making sure that venture capital investment is as accessible to women as it is to men. As little as 2.3% of all venture capital investment goes to female founders, but we are aiming to address this gender imbalance by demonstrably promoting and supporting female founder-led businesses.

Launch of the first Knowledge-intensive Impact EIS Fund
Mercia has long invested in impactful businesses that operate in fields like Biomedicine and Clean Tech. Launching our impact investment fund was a natural progression of this legacy.

The Knowledge-intensive Impact EIS Fund only invests in businesses that provide solutions to environmental or societal challenges. To ensure these businesses affect real and quantifiable change, we will judge their qualitative and quantitative impact in three ways:

1. In relation to our three guiding principles developed from the UN's sustainable development goals.
2. By referencing our portfolio against the IRIS+ system (developed by the Global Impact Investing Network) for measuring, managing and optimising impact.
3. With our own approach to measurement, which we will refine in line with industry standards as recognition of impact develops in the years ahead.

The launch of this new EIS fund raised c.£5million post year end, in addition to the c.£16million of new capital raised in the year ended 31 March 2022.

Progress made toward net-zero
Mercia has engaged with the third-party business Positive Planet to calculate our carbon footprint and help us produce a reduction plan to lower emissions and achieve our target of net-zero. Currently, our emissions per person are in the accepted range for a business in the first year of its journey toward this goal.

Next year we will continue to engage with Positive Planet as we work towards reducing our carbon emissions on our journey to net zero.

Support for internal talent
We aim to be the first choice for investors, investees and employees. An aspect of our commitment to responsibility is supporting our employees to grow and develop professionally. Our successes as an investor all begin with the cultivation of internal talent.

Mercia has focused on strengthening team dynamics to foster feelings of inclusion and promoting psychological safety within our organisation. We believe that inclusive teams, where individuals feel safe and respected, are those which perform best.

Positive pathways
Mercia's team grew by 29 new recruits, of which 14 are women. One new appointee has taken a full-time dedicated talent-development role in the P&T Team.

Our Mercia Heart programme continues to beat strong and underlies the strong culture which has evolved over the past two years. We marked our first Mercia Heart Day in February where we sent all employees a box of love-themed cakes and sweets.

We have eased the transition back to our offices with the launch of our Flex+ Policy, which allows for a hybrid model of three days in the office, also offering core office hours to enable some flexibility on office days, which allows for maintaining a good work/life balance.

We have further expanded our benefits offering with the addition of an electric vehicle leasing scheme which is open to all employees after a qualifying period. Currently 11 employees have taken advantage of this.

Our O2 team are still driving new ideas to benefit both Mercia and our team members, seeking to ensure that we continue to implement positive change. Our soon-to-be-launched Great Minds Mentoring initiative is aligned to these objectives and will support each team member's aspirations for growth.

Awayday

Mercia is based across eight offices in diverse regions of the UK. As a result of our cross-fund, 'Complete Connected Capital' strategy, our teams frequently collaborate with each other on deals but do not get to spend much time together in person to bond and socialise.

We decided to re-instate our annual awayday, after the challenges of the last two years, to encourage a feeling of collaboration between team members. In September, approximately 100 Mercia employees headed to Hexham in the North East for two days at Slaley Hall Hotel where they played team-building games and spent time together in nature.

Because I joined Mercia during the COVID-19 pandemic, I hadn't spent any time with the rest of the team face-to-face. I loved getting to know everyone in person and the games were really good for that – especially the C4 Hunted-themed one because everyone had to dress up!"

Abbie Hollister
Inbound Marketing Manager

Recognised for responsibility

As Mercia has focused on strengthening our commitment to responsible investing internally, we have also been recognised by external bodies for our work so far in this area.

EISA Impact Award 2021 winner
Mercia was recognised for our credibility as an impact investor in 2021 with the EISA Impact Award, as much of our EIS portfolio already contains businesses that offer environmental or health solutions.

Investing in female founders
Mercia was first recognised by the Financial Times' media site 'Sifted' for our commitment to diversity and inclusion in October 2021. A Pitchbook data report commissioned by Sifted revealed that we were one of the top 15 most active European providers of venture capital ("VC") for investing in female founders over the past five years.

Northern Leadership Awards
Jill Williams was nominated for the Northern Leadership Awards' Diversity and Inclusion Leader category for her work in implementing Mercia's initiatives in this area as the Head of ESG and Responsible Investment Committee leader.

North West Rainmaker Awards 2021
Jill Williams also received a nomination for the Changemaker category at the 2021 North West Rainmaker Awards for her work in advancing responsible investment and ESG principles within Mercia.

Strengthening our commitment

Last year, we took the first steps in our journey of formalising our commitment to responsible investment. We have already made progress in the area of diversity and inclusion within Mercia; initially, by improving gender equity in the investment team, before going on to launch our first fund dedicated to investing in impactful businesses. Moreover, ESG principles have been incorporated into our formal legal agreement with portfolio businesses for the first time.

Next year, we intend to build on these successes by continuing to put ESG principles at the heart of our investment strategy and raising our profile as an impact investor.

University of Warwick

Develop a carbon-reduction plan
We have begun to work with Positive Planet to offset our carbon emissions in the current year in order to achieve net-zero. However, that is merely the starting point in our carbon-reduction strategy.

Positive Planet has assisted Mercia in identifying how most of our carbon emissions are generated. We can now begin to actively reduce our emissions across these defined areas by developing a reduction plan that focuses on emissions per employee.

University of Warwick Partnership
The Responsible Investment Committee has embarked on a collaboration with University of Warwick, which has long been a Mercia university partner. We intend to recruit students from socially and economically disadvantaged backgrounds into our paid internship programmes. Our first interns will be joining us in the Autumn of the academic year 2022/23. These interns will potentially join Mercia in graduate roles once they have successfully completed the internship programme and graduated.

E-learning

Mercia launched the e-learning platform Kallidus to facilitate the training of new colleagues, in addition to providing further access to professional development resources to anyone within Mercia who might benefit from them. All Mercia employees now have unlimited access to Blinkist book summaries and courses from Harvard Business School, as well as our own internally devised courses that enable professional growth.

Michelle Heaselgrave
Head of People & Talent

Robust results and business fundamentals

growth

Chief Financial Officer
Martin Glanfield

"Mercia has generated over £60million of pre-tax profits during the last two years."

2022 Highlights

£27.4m
Profit before taxation
2021: £34.0m

£200.6m
Net assets
2021: £176.0m

45.6p
Net assets per share
2021: 40.0p

£61.3m
Cash*
2021: £54.7m

* Including short-term liquidity investments

The significance of Mercia's financial results for the year ended 31 March 2022 is that they demonstrate that the previous year's record results were not a 'one-off'. These results were generated from both the Group's profitable fund management operations and its maturing direct investment portfolio. This combination of recurring profits and cash flow generation from both our fund management operations and balance sheet investment portfolio, is a key differentiator in the specialist asset management sector.

Overall financial performance

The gradual emergence from the economic and social impact of the pandemic during the second half of the financial year, enabled the Group to maintain its profitable fund management and direct investment momentum. Excluding performance fees received, revenue continued to increase and as meeting and travel restrictions eased and budgeted staff recruitment levels were reached, Mercia ended the year back on a 'normal' trading footing. The second half of the financial year also saw two new direct investments join the balance sheet portfolio (Forensic Analytics and Pimberly), the highly profitable sale of Faradion and just prior to the year end, a significant new third-party investment into nDreams, at a materially higher valuation than the previous carrying value.

For the year as a whole therefore, the Group exceeded the first of its three-year 'Mercia 20:20' average annual pre-tax profit target of £20.0million, with pre-tax profits of £27.4million.

Proposed final dividend

The Board adopted Mercia's progressive dividend policy in December 2020, and since then has announced interim dividends of 0.1 pence per share in December 2020 and 0.3 pence per share in December 2021. Shareholders also approved a maiden final dividend of 0.3 pence per share in September 2021.

Given the Group's twin sources of profitability and cash inflow, the Group's dividend policy does not need to be anchored to one or other earnings source, hence the Board's intention to grow total dividends year on year.

The continuing strong Group performance coupled with its positive future prospects, now enables Mercia's Board to recommend a proposed final dividend of 0.5 pence per share. If approved by shareholders at September 2022's Annual General Meeting ("AGM"), the total dividend for the year will be 0.8 pence per share (2021: 0.4 pence per share).

If approved by shareholders, the final dividend will be paid on 11 October 2022 to shareholders on the register at close of business on 23 September 2022, with the total dividend payable being £2,201,000 (2021: £1,320,000).

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

The Directors believe that the reporting of adjusted operating profit assists in providing a consistent measure of operating performance and is an important APM of interest to shareholders.

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 deferred consideration and exceptional items. It includes net finance income.

Results reported on an APM basis are denoted by[1] throughout this review.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Revenue[1]	**20,576**	19,186
Administrative expenses[1]	**(16,618)**	(15,897)
Net finance income	**4,437**	48
Adjusted operating profit	**8,395**	3,337
Performance fees	**2,607**	4,224
Variable compensation attributable to performance fees	**(1,015)**	(445)
Net performance fees	**1,592**	3,779
Adjusted operating profit including net performance fees	**9,987**	7,116
Depreciation	**(224)**	(212)
Net finance income	**(4,437)**	(48)
Realised gain on disposal of investment	**9,878**	20,251
Fair value movements in investments	**11,385**	10,088
Share-based payments charge	**(1,109)**	(543)
Amortisation of intangible assets	**(2,033)**	(2,317)
Movement in fair value of deferred consideration	**(522)**	(365)
Operating profit	**22,925**	33,970
Net finance income	**4,437**	48
Profit before taxation	**27,362**	34,018
Taxation	**(1,262)**	440
Profit and total comprehensive income for the year	**26,100**	34,458

Chief Financial Officer's review continued

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

	Year ended 31 March 2022			
	APM basis[1] £'000	**Performance fees £'000**	**Depreciation £'000**	**IFRS as reported £'000**
Revenue	**20,576**	**2,607**	**–**	**23,183**
Administrative expenses	**(16,618)**	**(1,015)**	**(224)**	**(17,857)**
Depreciation	**(224)**	**–**	**224**	**–**

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

The Group acknowledges the recent recommendations of the Financial Reporting Council, that APMs should not be given greater prominence over its financial results reported under IFRS. In future years therefore, the Group will highlight and reconcile its results under IFRS to its APMs, rather than reconcile its APMs to its results under IFRS. As an example, only exceptional performance fees receivable, together with any associated staff bonus accrual, will be reported separately within the overall calculation of adjusted operating profit.

Revenue

Revenue[1] increased 7.2% to £20,576,000 (2021: £19,186,000) and comprised fund management related fees, initial management fees from investment rounds, investment director monitoring fees and sundry business services income. Excluding the impact of VCT share offer fees received in the year ended 31 March 2021, the like-for-like increase was c.15%.

Administrative expenses

Administrative expenses[1], excluding depreciation, increased 4.5% to £16,618,000 (2021: £15,897,000) and comprised predominantly staff-related, office, marketing and professional adviser costs. Removing the impact of VCT share offer-related costs incurred in the year ended 31 March 2021, the like-for-like increase was c.14%.

As Mercia's assets under management continue to 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

Investment rounds into the Group's direct investment portfolio are generally either equity and/or convertible/non-convertible loans. As the portfolio continues to mature and either funding rounds with third-party investors occur or successful exits are achieved, the interest entitlement attached to these loans is typically converted into either additional equity or, on a full exit, paid to Mercia in cash. At the point of conversion/payment the interest is recognised as taxable finance income. Until the loans are converted/repaid and the interest entitlement crystallises, there is never any certainty that the interest entitlement will be crystallised into additional equity/paid. During the year, a number of convertible loan interest entitlements crystallised, the largest being in connection with the sale of Faradion. Non-convertible loans by Mercia to direct investee companies may have redemption premiums attached thereto. During the year, one such redemption premium, also in connection with the sale of Faradion, was received in cash and this is also accounted for as taxable finance income.

Total gross finance income of £4,452,000 (2021: £68,000) therefore arose primarily from both crystallised loan interest and redemption premiums. Finance costs of £15,000 (2021: £20,000) comprised interest payable on office leases and the Group's new staff electric car scheme.

Performance fees and attributable variable compensation

Performance fees can become receivable under certain of the Group's fund management mandates, when predetermined performance hurdles are exceeded. During the year, performance fees totalling £2,607,000 (2021: £4,224,000) were received, predominantly from Northern Venture Trust PLC, based upon the growth in its net asset value per share above a hurdle for the year ended 30 September 2021. Attributable VCT investment team bonuses (including employer's National Insurance) totalling £1,015,000 were paid (2021: £445,000).

Realised gain on disposal of investment

During the year, a realised gain of £9,878,000 (2021: £20,251,000) arose on the disposal of Mercia's equity holding in Faradion. Total cash proceeds of £19,402,000 were received upon completion, comprising £16,309,000 from the sale of the Group's equity holding, a loan repayment of £1,500,000, loan redemption premium of £1,500,000 and loan interest of £93,000.

Loan redemption premiums and interest, totalling £738,000 were converted into equity immediately prior to disposal of the Group's total equity holding. Under the terms of the sale agreement, 5% of the equity sale proceeds were required to be ring-fenced for 90 days, pending any claim as to title. As expected, no claims were received and the ring-fenced proceeds of £815,000 were released on 5 April 2022.

Fair value movements in investments

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of investments	**15,122**	10,773
Unrealised losses on the revaluation of investments	**(3,737)**	(685)
Net fair value movement	**11,385**	10,088

Net fair value increases during the year totalled £11,385,000 (2021: £10,088,000) and as at 31 March 2022, the fair value of the Group's direct investment portfolio was £119,558,000 (2021: £96,220,000). For the year as a whole, unrealised fair value gains arose in 10 (2021: 11) out of the Group's 23 (2021: 23) direct investments. The largest fair value gain was in respect of nDreams, which accounted for £6,734,000 of the total (2021: £3,509,000 fair value gain in respect of AIM-listed MyHealthChecked plc). There were three (2021: four) fair value decreases, the largest being £2,856,000 which arose in respect of MyHealthChecked plc (2021: £439,000 fair value decrease in Eyoto).

Share-based payments charge

The £1,109,000 non-cash charge (2021: £543,000) arises from the net increase in the total number of issued share options held by all employees throughout the Group, ranging from 31 July 2019 to 31 March 2022.

Amortisation of intangible assets

The amortisation charge for the period of £2,033,000 (2021: £2,317,000) represents amortisation of the acquired intangible assets of the VCT fund management business.

Movement in fair value of deferred consideration

The VCT fund management contract's total purchase price has a number of contingent deferred consideration elements payable over a three-year period. The total deferred consideration was fair valued at the date of acquisition in 2019. The charge to the income statement of £522,000 represents the unwinding of the discount on the second deferred consideration payment made in December 2021 (2021: £365,000).

Taxation

The components of the Group's tax charge are shown in note 10 to the consolidated financial statements. The Group fully utilised its remaining historic trading losses during the year, which were available to set off against taxable profits. The scale of the Group's recent taxable profits (arising predominantly from net VCT performance fees and finance income) has resulted in the utilisation of the Group's remaining historic tax losses faster than previously anticipated.

The overall tax charge for the year also comprises the annual unwinding of the deferred tax liability in respect of the acquisition of the VCT fund management business, offset by both the impact of the enacted change in tax rate from 19% to 25% on the Group's deferred tax liability as at 31 March 2022, and a corporation tax charge on taxable profits over and above what has been offset against the remaining brought-forward tax losses.

Profit and total comprehensive income for the year

The adjusted operating profit, net performance fees, realised gain on the sale of Faradion and net fair value increases for the year as a whole, all contributed favourably to a consolidated total comprehensive income of £26,100,000 (2021: £34,458,000). This has resulted in basic earnings per Ordinary share of 5.93 pence (2021: 7.83 pence).

Chief Financial Officer's review continued

Summarised statement of financial position and cash flows

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Goodwill and intangible assets	**32,355**	34,388
Direct investment portfolio	**119,558**	96,220
Other non-current assets, trade and other receivables	**1,604**	4,623
Cash and short-term liquidity investments	**61,284**	57,209
Total assets	**214,801**	192,440
Trade and other payables	**(7,415)**	(8,600)
Deferred consideration	**(2,869)**	(4,447)
Deferred taxation	**(3,928)**	(3,372)
Total liabilities	**(14,212)**	(16,419)
Net assets	**200,589**	176,021
Net assets per share (pence)*	**45.6p**	40.0p

* 440,109,707 Ordinary shares were in issue during the years ended 31 March 2022 and 31 March 2021

Net assets per share increased by c.14% during the year, notwithstanding the payment of dividends totalling £2,641,000 (2021: c.24% growth after dividends paid of £440,000).

Intangible assets

Details of the Group's intangible assets are given in notes 13 and 14 to the consolidated financial statements, and consist of goodwill and the intangible asset recognised on the acquisition of the VCT fund management business.

Direct investment portfolio

During the year under review, Mercia's direct investment portfolio grew from £96,220,000 as at 1 April 2021 (2021: £87,471,000 as at 1 April 2020) to £119,558,000 as at 31 March 2022 (2021: 96,220,000), a c.24% increase notwithstanding the sale of Faradion during the year (2021: c.10% increase).

The Group invested £18,384,000 net (2021: £15,397,000) into 14 existing and two new direct investments (2021: 17 and two respectively), with the top 20 direct investments representing 98.6% of the total direct investment portfolio value (2021: 98.5%).

Further detail on the fair value movements of individual direct portfolio companies can be seen in Julian Viggars' CIO review on page 15.

Cash and short-term liquidity investments

At the year end, Mercia had cash and short-term liquidity investments (which is cash on deposit with maturities of between 32 days and three months) totalling £61,284,000 (2021: £54,725,000), comprising cash of £56,049,000 (2021: £54,491,000) and short-term liquidity investments of £5,235,000 (2021: £234,000). The Group held no cash on behalf of third-party EIS investors as at 31 March 2022 (2021: £2,484,000), following the appointment of an external custodian during the year.

The Group continues to have limited working capital needs due to the nature of its business and generated net operating cash inflow of £9.2million (2021: £5.6million net inflow).

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. As at 31 March 2022, the Group's cash and short-term liquidity investments were spread across four leading United Kingdom banks.

The summarised movements in the Group's cash and short-term liquidity investments position during the year is shown below.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening cash and short-term liquidity investments	**54,725**	30,186
Net cash generated from operating activities	**9,150**	5,611
Net cash generated from direct investment activities	**2,363**	21,640
Purchase of VCT fund management contracts	**(2,100)**	(2,100)
Cash outflow from other investing activities	**(62)**	(34)
Net cash used in financing activities	**(2,792)**	(578)
Closing cash and short-term liquidity investments	**61,284**	54,725

Outlook

Notwithstanding the economic and social ravages of the pandemic, Mercia has made significant progress in the last two years. During this two-year period the Group has generated over £60million of pre-tax profits, on headline revenues of c.£40million. With an excellent team of #OneMercia employees, fund management profitability established, net assets having passed £200million, a secure liquidity position and its dividends increasing, Mercia has established both strong cultural and business foundations from which to continue to grow total shareholder value in the years ahead.

As the worst near-term effects of the pandemic begin to subside, current macro-economic and geo-political tremors cast near-term clouds over stock market sentiment. Whilst valuations fluctuate from time to time, Mercia's funds under management are not 'open-ended' and therefore not at risk of redemption calls. The long term contracted nature of our funds under management therefore underpins our annual revenues and with it, operating cash inflow and dividends to shareholders. Add to this our fast maturing direct investment portfolio, which has very limited public markets exposure, and Mercia faces the future with optimism, built on robust business fundamentals.

Martin Glanfield
Chief Financial Officer

Principal risks and uncertainties

Risk management framework

Responsible

The Board considers that the risks detailed in this Annual Report represent the current key potential obstacles to achieving the Group's strategic objectives. They form part of 42 separately identified risks which are being monitored. 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 including the potential severity of impact, likelihood of occurrence and mitigating actions.

An assessment of the strength of mitigating actions determines the net risk score for each identified risk and any further actions required.

The Group's risk framework has been further developed over the course of the financial year, with the creation of a risk dashboard in order to provide the Board with greater visibility of the risks identified, categorised as Strategic or Operational as to their nature, with their origin being categorised as either External or Internal.

Mercia's risk dashboard is drawn from the overall 'net' risk score of each risk. New risks added or monthly updates to risk scores will result in movement of the dials to give the Board an immediate visual awareness of our changing risk profile, when compared with the previous month's dashboard.

We can extract multiple reports from the underlying data, such as those risks that score highest at a gross level, in order to provide assurance that our ongoing assessment is evaluating the mitigating controls in place and the strength of those controls.

The Board monitors, evaluates and mitigates key 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 overall 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 Dashboard as at 31 March 2022

Strategic risks

include longer-term, structural risks such as geopolitical risks and changes to individual investor tax reliefs available.

Operational risks

include internal systems and controls, people and talent and compliance risks such as staff retention, financial crime and reputational risks.

External risks

include cyber, regulatory, competitor, legal, force majeure, long-term pandemic-related risks and inflationary pressures.

Internal risks

include the successful execution of the Group's strategy and conflicts of interest.

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.

Geopolitical risk has become a strong focus given Russia's invasion of Ukraine, and we are continuing to monitor associated risks such as investee supply chain risk and financial risks associated with the interest rate environment and rising inflation. We have also maintained a high focus on risks such as cyber crime, given the increased potential for cyber attacks.

The risks associated with the COVID-19 pandemic have remained a high priority during the last financial year, given the range of potential impacts on our staff and portfolio companies. Staff welfare has continued to be of paramount importance and we continue to offer a range of tools to help staff with their mental wellbeing. With the success of the vaccine programme, we have embraced a phased return to office working, whilst continuing to trust our staff to work at all times in Mercia's best interests whether in the office or working remotely. Similarly, we have maintained 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, non-executive and venture partner expertise, where needed, through our 'Mercia Nucleus' initiative.

We have continued to build an effective recruitment and talent-management framework to help ensure that we mitigate, as far as reasonably possible, the risk of losing key staff.

We have also maintained our focus on regulatory risk and changes to the capital regime for all investment firms, having just completed our first returns on the basis of the new rules. In addition, we are monitoring the proposed changes to the categorisation and promotion of funds and focus on appropriate risk disclosures for higher-risk funds. Furthermore, we have assessed and formally adopted a Remuneration Code in compliance with the Financial Conduct Authority's ("FCA") requirements.

We continue to monitor the risk of failure to fully embrace the ESG agenda as set out on page 28. We have focused on climate change and undertaken work to assess our carbon footprint and the measures to reduce it with an objective of reaching 'net-zero'. Currently, we have offset our footprint to become carbon neutral across the Group.

The Group's Compliance Director reports on the current risks being monitored, plus new or emerging risks, to each meeting of the Board and the Audit Committee. Operational-level monitoring is conducted through the senior leadership of the Group and immediately escalated to the Executives 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

External

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
High inflation rates put increased pressure on both portfolio companies' and Mercia's cost base, principally salaries, cost of goods sold and other operating costs.	Cost increases add pressure to the liquidity of SME portfolio companies, increasing the risk of failure where the costs cannot be passed onto customers. An increase in Mercia's cost base puts adverse pressure on the short-term financial performance of the Group.	The SME portfolio companies are well led and well funded, with proportionally modest cost bases and are therefore resilient to short-term liquidity pressures. The Group's cost base is largely made up of staff costs, with a highly competitive staff remuneration package offered, including the potential to receive performance-related bonuses, share options and other benefits, such as an electric company car scheme.
Breaches of the Group's digital security, through cyber attacks or a failure of the Group's digital infrastructure, could result in the loss of commercially sensitive data and/or create substantial business disruption. **The incidence of cyber crime attempts and reports from portfolio companies has increased in the wake of COVID-19 and in light of the war in Ukraine with the potential for Russian-backed cyber crime or sabotage.**	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 uses Office 365 which, combined with the use of SharePoint, enables the secure storage and sharing of data internally. Business continuity plans and disaster recovery contingencies are tested and have proved to be effective to support remote working during the COVID-19 related lockdowns. 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 ability to identify suspicious emails and the need for prompt escalation. 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. We have identified IT systems with offshore hosted servers and taken steps to ensure resilience and back-up arrangements.

Risk	Possible consequences	Mitigation
The continuing 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 impact 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. Resultant impact on the operational efficiency of the Group. Risk to the valuation of funds and VCT portfolios managed by Mercia regulated entities, as well as general market 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. 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. The Group has recently moved to three days in the office for all operational staff. Investment staff are now resuming face-to-face meetings and attending investee board meetings, investment conferences and networking events in person. 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 CEOs. We have assisted firms through our 'Mercia Nucleus'-led non-executive director network to strengthen boards and increase resilience to difficult trading conditions. In general, investee company valuations are continuing to recover and asset price linked revenues have stabilised as a result.

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 support staff through monthly investment team meetings and 'all hands' Zoom calls with our Chief Executive Officer and other members of the Executive Team. Our annual staff survey results are evaluated by the Board, and any issues or areas of concern, as well as new proposals from staff, are thoroughly considered and acted upon wherever possible. Mercia has grown a strong pool of talent, reducing the overall impact of any single leaver.

Risk	Possible consequences	Mitigation
Tax efficient investments may fail to meet the criteria for HM Revenue and Customs ("HMRC") clearance, either at the outset or on a continuing basis, due to a lack of internal controls, or awareness and diligence by the staff undertaking such investments, or responsibility for ensuring the eligibility criteria are met.	EIS and Seed Enterprise Investment Scheme ("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 which obtains 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.

Principal risks and uncertainties continued

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 regulated by the Alternative Investment Fund Managers Directive ("AIFMD"), in respect of the quantum of FuM. 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 FuM 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 our new external custodian, Mainspring Fund Services, required detailed due diligence from both a commercial and a regulatory perspective. This was undertaken by the EIS team and overseen by the Chief Financial Officer and Group Compliance Director. Commercial terms were reviewed by the Group's in-house General Counsel. Mercia Fund Management Ltd, 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. We undertake an annual due diligence exercise, including a site visit, to maintain effective oversight over the custodian, in addition to regular two-way contact between key team members.

Risk	Possible consequences	Mitigation
The Group now has c.£758million 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. Fund Principals oversee both fund performance and client relationships. Detailed quarterly reports are issued to fund investors. *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.
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 portfolio companies, with a potential knock-on effect on fund management and director monitoring fees, as well as impacting on direct investment performance.	The Group focuses its investment activities predominantly on the historically under-served regions of the UK, 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 a degree of 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 BBB, with further allocations having being made to the existing mandates. Portfolio company competitiveness is monitored and additional support and expertise is provided by 'Mercia Nucleus' when required.

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
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 connection with investment mandate priorities or follow-on investments in an existing investee company by more than one Mercia fund. 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 in respect of individual investments on a case-by-case basis. The policy also deals with potential conflict situations arising with staff, for example, being closely involved in developing 'home grown' investee companies or holding shares. A register of conflicts is maintained and overseen by the Group's Compliance Director. We have the ability to convene a Conflicts Committee in order to ensure that any particularly complex conflicts are appropriately managed. During the year, one such meeting was held, led by the Chair of the Audit Committee, to provide independent oversight of a proposed investment decision affecting more than one fund.
The majority of the direct investment portfolio comprises businesses at a relatively early stage in their development, and as a result, carries inherent risks including technical and commercial risks. Typically, such companies are developing new or disrupting existing technologies and breaking new ground commercially. **Portfolio companies were initially affected both positively and negatively by the COVID-19 pandemic, eg growth rates in the Digital Gaming industry 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 they 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 to create shareholder value. The length of time taken for these companies to arrive at success or failure may be protracted, placing them under severe pressure to maintain the financial support required over a sustained period of time.	All bar one (Forensic Analytics) of the Group's current direct investment portfolio have 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 period, are not supported further. In addition, '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 volatile economic and geopolitical 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 other support. In addition, our ability to source high-quality non-executive directors via 'Mercia Nucleus' 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.	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 as a result of the 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 58.6% 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 the successful sale of OXGENE in 2021 and Faradion in early 2022, 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 mitigating against investee failure risk.

Events after the balance sheet date

Other than the continuing completion of approved direct investments, there have been no other material events since the balance sheet date.

Approval

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

Dr Mark Payton
Chief Executive Officer

4 July 2022

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 Ltd (to Myotec) to create PsiOxus Therapeutics Ltd, Warwick Effect Polymers Ltd (to Polytherics Ltd) to create Abzena plc, Oxford Genetics Ltd (sold to WuXi AppTec) 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 Ltd (sold to Millipore), Oxford Immunotec Ltd (listed on NASDAQ), Oxitec Ltd (sold to Intrexon) and Natural Motion Ltd (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.

Mark 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 Group Ltd, 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 £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 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 BBB 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 until February 2022 was a non-executive director of the previously AIM listed Arena Events Group. 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 Abrdn Private Equity Opportunities Trust plc, PraxisIFM Group Ltd and SEI Investments (Europe) Ltd and is a co-founder of Acorn Capital Advisers Ltd. Diane was appointed to the Independent Valuation Committee of Chrysalis Investments Ltd in June 2022. Previously, Diane was also a non-executive director of Brooks Macdonald Group Plc, serving a nine-year tenure and chairing the Remuneration Committee. 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 Ltd, a specialist global emerging and frontier markets equities manager. Her non-executive experience spans the quoted wealth and asset management, global equity, private equity, investment services and VCT sectors.

Diane has an MA in economics from Cambridge University. She has a longstanding interest in sustainable investing and recently completed the Cambridge University Institute of Sustainability Leadership course in Sustainable Finance.

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 chair 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's board accepted a substantial offer for the group. Subsequently, Ray diversified his interests, including establishing a trust focused on investing in technology-led start-ups. Ray was appointed Non-executive Chair at the time of the Group's IPO and having steered the company through its first 18 months, moved to his current non-executive position.

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 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 Ltd, with clients including Jaguar Land Rover, Vodafone and Google. She also founded Fluidly Ltd, a venture-backed SaaS business in the Fintech space which was acquired by OakNorth Bank in December 2021. Caroline was appointed as Group CEO of accountancy practice Jeffreys Henry Ltd in February 2022 and remains as a non-executive director of Fluidly. 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 Order of the British Empire 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 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 7)

Executive	
Dr Mark Payton	7
Martin Glanfield	7
Julian Viggars	7
Non-executive	
Ian Metcalfe	7
Ray Chamberlain	6
Dr Jonathan Pell	6
Caroline Plumb OBE	7
Diane Seymour-Williams	7

Committees
Membership

Audit & Risk
Remuneration
Nomination

Directors' report

The Directors present their Annual Report and the audited financial statements of Mercia Asset Management PLC ("Mercia", the "Company" or the "Group") for the year ended 31 March 2022.

Results and dividends

The profit for the year was £26,100,000 (2021: £34,458,000). An interim dividend of 0.3 pence per share was paid on 31 December 2021 at a cost of £1,320,000 (2021: 0.1 pence per share at a cost of £440,000). In accordance with the progressive dividend policy adopted by the Board, the Directors recommend the payment of a final dividend of 0.5 pence per share for the year ended 31 March 2022 (2021: 0.3 pence per share). If approved by shareholders at the Annual General Meeting ("AGM"), the final dividend will be paid on 11 October 2022 to shareholders on the register on 23 September 2022.

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 51, 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
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 is shown in the Remuneration Report on page 67.

Directors' indemnities

Mercia 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 28 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2022, 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	30,665,000	7.0
Librae Holdings Limited	22,118,528	5.0
Forward Nominees Limited[1]	21,801,208	5.0
Chelverton Asset Management	18,200,000	4.1
BMO Global Asset Management	18,176,160	4.1
Blackrock	15,100,000	3.4
The Hargreaves No 11 Settlement	14,000,000	3.2
NFU Mutual Insurance Society	13,331,465	3.0

1 Shareholdings connected to Ray Chamberlain

Political donations

During the year ended 31 March 2022, the Group made no political donations (2021: £nil).

Employees

The Group employed an average of 108 (2021: 99) 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 'Responsible business' beginning on page 28, 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 CEO and via an open and inclusive culture. Talent management, encompassing recruitment, retention, communication, training and performance management and employee wellbeing, 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

The auditor, BDO LLP, has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the forthcoming AGM.

Approved by the Board and signed on its behalf by:

Sarah-Louise Williams
Company Secretary
4 July 2022

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

Group General Counsel & Company Secretary

Sarah-Louise Williams

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. Sarah qualified as a corporate solicitor in 2007 and has extensive experience in all aspects of corporate transactional and advisory work. She is responsible for providing legal advice across the Group and managing the Group's relationship with external legal advisers, as well as performing the role of Company Secretary. Sarah is actively involved in transactions relating to Mercia's direct investment portfolio and has overseen the exits from The Native Antigen Company, Clear Review, OXGENE and Faradion.

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 UK-adopted 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
- 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
- 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
- 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 4 July 2022 and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Corporate governance report

Non-executive Chair's corporate governance statement

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

Mercia has been a member of the QCA since 2015 to further its understanding of, and adherence to, good corporate governance practice. It formally adopted the QCA Corporate Governance Code (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.

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.

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. Under the direction of Jill Williams, Investment Director and Head of ESG, our ESG policy has continued to sit 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.

Brief biographies of the Directors and their relevant experience are set out on pages 52 and 53. Their membership of committees is set out on pages 58 and 59.

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 January 2022, Lorraine Young Board Advisory Services ("LYBAS") was appointed to facilitate an external review of the effectiveness of the Board. The appointment was confirmed after a tender exercise and LYBAS has not provided any other services to the Company during the year.

The process comprised observation of a Board meeting, a review of Board and committee papers issued during the year, questionnaires completed by the Board relating to competency and experience and confidential one-to-one discussions between LYBAS and members of the Board and Executive Team. LYBAS provided a report which identified what was working well and those areas where there was scope for development. Overall, LYBAS concluded that the Board appears to be performing very well. Matters recommended for development included:

- The Nominations Committee to develop an emergency succession plan
- Diane Seymour-Williams to formally join the Committees
- Complete handover of all matters normally undertaken by the Company Secretary
- Allocate more Board meeting time to risk governance, including risk appetite

The report was discussed at a Board meeting in May 2022. In the coming months, the Nominations Committee will recommend to the Board actions to support the development of such areas. LYBAS has been invited to return in a year's time to review progress.

Board meetings

The Board meets formally a minimum of seven times each year. In addition, the Non-executive Directors communicate directly with the Executive Directors between Board meetings. The Board typically holds a dedicated meeting 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 2022 seven 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	7/7	3/3	7/7	1/1
Dr Mark Payton	7/7	3/3[1]	5/7[1]	–
Martin Glanfield	7/7	3/3[1]	7/7[1]	–
Julian Viggars	7/7	1/3[1]	–	–
Ray Chamberlain	6/7	–	–	–
Dr Jonathan Pell	6/7	2/3	6/7	1/1
Caroline Plumb OBE	7/7	3/3	6/7	1/1
Diane Seymour-Williams	7/7	1/3[1]	5/7[1]	1/1[1]

1 Attended by invitation

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 63 to 67 of this Annual Report. The Chief Financial Officer attended Audit and Risk Committee and Remuneration Committee meetings as Committee Secretary. The Company Secretary attended the Nominations Committee meeting 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 once formally during the year and having recommended an externally facilitated Board review, *recommended the appoint of LYBAS following a tender process.*

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:

- Reviewing the work undertaken by the Group's external auditor;
- Closely monitoring the changing risk profile of the Group during the pandemic and the mitigating actions being taken by the Executives;
- Considering the pronouncements of the Financial Reporting Council in respect of best practice in financial reporting, with particular reference to the emphasis given to Alternative Performance.

The Committee Chair also maintained a regular dialogue with the Chief Financial Officer, to ensure his 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.

Corporate governance report continued

The QCA Corporate Governance Code

Since 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, currently through its 'Mercia 20:20 Vision'. 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 51 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 AGM as an opportunity to communicate with its shareholders.	Pages 4 and 57 of this Annual Report and the AIM Rule 26 section of the Group's website
	3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	✓	Mercia's Annual Report identifies its key stakeholders within the Responsible Business section and how seriously the Group takes its ESG responsibilities.	Pages 28 to 35 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 42 to 51 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 57 to 59 of this Annual Report and the AIM Rule 26 section of the Group's website

	Governance principles	Compliant	Explanation	Further reading
	6. Ensure that between them the Directors have the necessary up-to date experience, skills and capabilities	✓	The Board is satisfied that, between the Directors, it has an effective and appropriate balance of experience, skills and capabilities. To ensure that the Directors maintain appropriate skills, they are provided with training when identified as appropriate by the Chair. Mercia's Annual Report includes a biography of each Board member. These are also included within the Investor Relations section of its website, under 'Meet the Board'. They list the current and past roles of each Board member and also describe the relevant business experience that each Director brings to the Board, plus their academic and professional qualifications. This Annual Report describes and explains where external advisers have been engaged (eg by the Board in January 2022). 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 52 and 53 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 January 2022. The actions to be taken in response to the recommendations arising from this review will be agreed and implemented during the summer of 2022.	Page 58 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 'Responsible business' 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 2021/22 and 2022/23 include Mercia's cultural values.	Pages 30 to 35 of this Annual Report and the AIM Rule 26 section of the Group's website
	9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	✓	The Board is collectively responsible for the long-term success of Mercia. It has a schedule of matters reserved for its approval which covers key areas of management and governance of the Group. This Annual Report details the composition and terms of reference of the Board and its Committees. These are also included within the Investor Relations section of Mercia's website.	Pages 57 to 59 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.	Page 3 and pages 57 to 59 of this Annual Report and the AIM Rule 26 section of the Group's website

Corporate governance report continued

Internal controls

The Board acknowledges its overall responsibility for the Group's system of internal controls and the ongoing review of their effectiveness. These controls are designed to safeguard the Group's assets and are considered appropriate for an AIM company of the size and complexity of Mercia. 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 AGM, which this year will be held on 13 September 2022.

Ian R. Metcalfe
Non-executive Chair

4 July 2022

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 those 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 2022, the Remuneration Committee comprised Ian Metcalfe as Chair, Caroline Plumb OBE and Dr Jonathan Pell. The Remuneration Committee is expected to meet at least twice a year and otherwise as required. During the year, the Committee met formally seven times, and on other occasions on an 'as required' basis.

Remuneration policy

The Remuneration Committee continues to believe that the success of the Group depends in large part on the performance of the Executive Directors and senior management team and in being able to attract, retain and motivate people of high calibre and experience. The Committee also recognises the importance of ensuring that employees are incentivised and identify closely with the achievement of the Group's strategic objectives, the leading ones of which are to achieve incremental shareholder value over the medium term through the successful investment in, and subsequent exit from, technology-based companies, leading to growth in pre-tax profits and net assets per share, as well as growth in the Group's total assets under management and an increasing annual dividend.

Accordingly, the Committee seeks to provide a fair, balanced, competitive and affordable remuneration package for its Executive Directors and all other 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 their 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 the then current remuneration practices and the Group's own objective of sustained long-term capital growth. The external consultants also benchmarked the existing remuneration packages against a defined comparator group.

Given the significant progress that the Group subsequently made, in December 2020 the Committee commissioned a new external remuneration review. The remuneration consultants were asked to consider both 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 due to the economic impact of the pandemic, were reviewed against a listed peer group and were found to be in the lower quartile for that group. These base salaries were subsequently increased for the year to 31 March 2021. No changes were recommended to existing bonus and benefits policies, but the review also recommended the introduction of a new Executive performance share plan ("PSP") linked to total shareholder return. Following extensive consultation with the Company's Nominated Adviser and leading shareholders, a new long-term incentive plan was announced for the four senior executives on 12 July 2021, with effect from 1 April 2021.

Remuneration report continued

Having, as in previous years, agreed to a maximum bonus award of up to 100% of base salary for exceptional performance in the year to 31 March 2022, the Committee determined once again that any bonus award would be payable in cash up to 50% of base salary with the remainder in a form of restricted Mercia shares. The agreed criteria for determining the ultimate award were:

1. FuM performance – 30% weighting
2. Total shareholder return – 45% weighting
3. ESG progress, high-performing teams and Mercia core values – 25% weighting.

In determining the bonus payable for the year to 31 March 2022, the Committee first noted that the Group's financial performance was, for the second year running, 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.

Having considered the strong financial performance of the Group and the successful leadership of the senior executives against each of the above criteria, the Committee awarded bonuses to each Executive Director at 85% of their base salary for the year to 31 March 2022. Of the total, 50% of each bonus has been paid in cash with the balance of 35% settled in cash, with the net payment receivable by the Executive Directors applied by them in purchasing shares in Mercia, which they will hold for a minimum of one year.

The Committee has agreed to a maximum bonus of 100% of base salary depending upon the Group's performance for the year to 31 March 2023, with the bonus award payable in cash up to 50% of base salary and the remainder settled in cash, with the net payment receivable by the Executive Directors applied by them in purchasing shares in Mercia, which will be held for a minimum of one year.

The agreed criteria for determining the ultimate award are as per last year, namely:

1. FuM performance – 30% weighting
2. Total shareholder return – 45% 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	281	6 months
Martin Glanfield	15 December 2014	229	6 months
Julian Viggars	17 April 2018	229	6 months
Ian Metcalfe	15 December 2014	83	3 months
Diane Seymour-Williams	3 November 2020	48	3 months
Dr Jonathan Pell	22 December 2017	46	3 months
Ray Chamberlain	15 December 2014	40	3 months
Caroline Plumb OBE	12 June 2018	40	3 months

The following Non-executive Director annual salary bandings, as approved by the full Board, apply for the foreseeable future:

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

Equity-based incentive schemes

The Group has 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 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.

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 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 for CSOPs issued up to and including 28 January 2020, and 8% (compound) per annum for options issued between 29 January 2020 and 31 March 2022. Where the performance condition has not been achieved on the third anniversary or if an employee leaves before the third anniversary, those options lapse.

In the year to 31 March 2022, new share option awards were granted to a number of staff. The total number of options in issue as at 31 March 2022 was 27,507,139, including 8,800,000 Performance Share Plan options granted in 2021 (2021: 20,784,140 including nil Performance Share Plan options).

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, with the third plan period running from 1 April 2019 to 31 March 2021. The fourth plan commenced on 1 April 2021 and will run to 31 March 2023.

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, after 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-IPO period leading up to the implementation of the CIP on 1 August 2015.

Remuneration report continued

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

	Salaries payable		Pension contributions		Taxable benefits		Performance-related bonus		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Executive Directors										
Dr Mark Payton	**270**	235	**30**	26	**2**	2	**230**	230	**532**	493
Martin Glanfield	**220**	200	**24**	22	**3**	3	**187**	196	**434**	421
Julian Viggars	**220**	200	**24**	22	**3**	2	**187**	196	**434**	420
Non-executive Directors										
Ian Metcalfe	**83**	75	**-**	-	**-**	-	**-**	-	**83**	75
Diane Seymour-Williams	**48**	17	**-**	-	**-**	-	**-**	-	**48**	17
Dr Jonathan Pell	**46**	40	**-**	-	**-**	-	**-**	-	**46**	40
Ray Chamberlain	**40**	40	**-**	-	**-**	-	**-**	-	**40**	40
Caroline Plumb OBE	**40**	40	**-**	-	**-**	-	**-**	-	**40**	40
	967	847	**78**	70	**8**	7	**604**	622	**1,657**	1,546

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

Mercia Fund Management Phantom Carried Interest Plans ("MFM Plan")
The Group's wholly owned subsidiary, Mercia Fund Management Limited ("MFM") raises annual 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. 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. Any bonuses due to staff will be paid half yearly.

There were no MFM Plan bonus entitlements paid during the year.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Executive Directors		
Dr Mark Payton	-	143
Martin Glanfield	-	6
Julian Viggars	-	43
	-	192

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

2021 Performance Share Plan ("PSP")
On 9 July 2021, the Remuneration Committee put in place a PSP to align the incentives of the Executive Directors with the future performance of the business and shareholders' interests. The PSP comprises 8,800,000 nil cost options awarded to the four senior executives under the existing 2014 CSOP.

These PSP options, which are subject to the satisfaction of a performance condition, vest on the third anniversary of the date of grant and are subject to a subsequent two-year holding period. The number of PSP options which ultimately vest will depend on the Company's total shareholder return ("TSR") over a performance period of three financial years, starting on 1 April 2021. The number of PSP Options vesting will be calculated as follows:

- 50% of the PSP options will vest based on the achievement of 10% TSR over the three-year performance period.
- Vesting will then increase on a straight-line basis to full vesting for the achievement of 20% TSR.

TSR will be measured using the average share price for the three days immediately prior to 31 March 2024. The PSP options granted to the three Executive Directors are subject to typical malus and clawback provisions.

Share options

The number of options over Mercia Asset Management's Ordinary shares, held by Directors as at 31 March 2022, are set out below:

	Number of options					
	As at 31 March 2022	As at 31 March 2021	Date of grant	Type of interest	Exercise price	Period of exercise
Executive Directors						
Dr Mark Payton	–	400,000	28 Aug 2018	CSOP	30.80p	28 Aug 2021 to 27 Aug 2028[1]
	946,502	946,502	28 Jan 2020	CSOP	24.30p	28 Jan 2023 to 27 Jan 2030[2]
	1,880,000	1,880,000	21 Aug 2020	CSOP	21.50p	21 Aug 2023 to 20 Aug 2030[3]
	2,596,430	–	9 Jul 2021	PSP	0.001p	9 July 2024[4]
Martin Glanfield	–	400,000	28 Aug 2018	CSOP	30.80p	28 Aug 2021 to 27 Aug 2028[1]
	823,045	823,045	28 Jan 2020	CSOP	24.30p	28 Jan 2023 to 27 Jan 2030[2]
	1,600,000	1,600,000	21 Aug 2020	CSOP	21.50p	21 Aug 2023 to 20 Aug 2030[3]
	2,113,652	–	9 Jul 2021	PSP	0.001p	9 July 2024[4]
Julian Viggars	–	1,200,000	28 Aug 2018	CSOP	30.80p	28 Aug 2021 to 27 Aug 2028[1]
	823,045	823,045	28 Jan 2020	CSOP	24.30p	28 Jan 2023 to 27 Jan 2030[2]
	1,600,000	1,600,000	21 Aug 2020	CSOP	21.50p	21 Aug 2023 to 20 Aug 2030[3]
	2,113,652	–	9 Jul 2021	PSP	0.001p	9 July 2024[4]

1 The options, exercisable as to one-third from 28 August 2021, one-third from 28 August 2022 and the remaining one-third from 28 August 2023, lapsed during the year ended 31 March 2022

2 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 is met

3 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 2025, if the performance condition is met

4 The PSP options will vest on 9 July 2024 upon satisfaction of the performance condition. If the performance condition is met, the shares issued and allotted are subject to a two-year lock-in period from 9 July 2024 to 8 July 2026

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 2022	Number of Ordinary shares as at 31 March 2021
Ian Metcalfe[1]	**292,609**	242,609
Dr Mark Payton[1,2]	**7,021,604**	6,851,366
Martin Glanfield[1,2]	**1,466,887**	1,044,305
Julian Viggars[1]	**846,385**	686,385
Ray Chamberlain[3]	**65,194,766**	65,194,766
Dr Jonathan Pell	**–**	–
Caroline Plumb OBE	**40,000**	40,000
Diane Seymour-Williams	**250,000**	250,000

1 In July 2021, Ian Metcalfe, Dr Mark Payton, Martin Glanfield and Julian Viggars each increased their shareholding in Mercia Asset Management PLC by purchasing 50,000 shares, 157,445 shares, 257,328 shares and 150,936 shares respectively. A person closely associated with Martin Glanfield purchased 125,784 shares. A person closely associated with Julian Viggars increased their shareholding in Mercia Asset Management PLC by purchasing 9,064 shares

2 In January 2022, a person closely associated with Dr Mark Payton, and Martin Glanfield, increased their shareholding in Mercia Asset Management PLC by purchasing 12,793 shares and 39,470 shares respectively

3 Ray Chamberlain is indirectly interested in 65,194,766 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

4 July 2022

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted 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 2022 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company's statement of financial position, the Consolidated statement of cash flows, the Consolidated and Company's statement of changes in equity 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 UK adopted 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 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.

Overview

Coverage[1]	*97% (2021: 97%) of Group profit after tax* *99% (2021: 96%) of Group revenue* *99% (2021: 99%) of Group total assets*		
Key audit matters		2022	2021
	Valuation of Unquoted Investments	✓	✓
	Revenue Recognition	✓	✓
	Valuation of Goodwill and Intangible Assets	✓	✓
Materiality	The materiality for the Group was set at £5,000,000 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 statement of financial position of the Group as well as those that are qualitatively significant to 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 audit 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.	A sample of fund management fees due from the limited partnerships were recalculated based on the underlying Limited Partnership 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. Performance fees were recalculated based on the underlying agreement and agreed to invoice or subsequent receipt. **Key observations** Based on the procedures performed we consider that revenue has been recognised appropriately.

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

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of Unquoted investments (Note 1 and 17 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.	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 84% 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 2022. **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, 13 and 14 to the financial statements)	The Group is required by applicable accounting standards to undertake an annual impairment review of all assets including goodwill. The impairment assessment was required for each of the three cash generating units. 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.	We have reviewed Management's impairment assessment of goodwill and intangible assets. We have considered the key assumptions and judgements used in Management's impairment assessment were appropriate and reasonable. These included review of the value in use calculations as well as profitability of each CGU since inception, underlying management contracts and the investment track records. We corroborated key assumptions to financial performance of each CGU and those of the underlying funds. For amounts recognised as goodwill and intangible assets, we have performed sensitivity analysis 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. We have reviewed the reasonability of forecast cash flows by performing an assessment of the performance of the VCT's over the year based on the division's year to date results, inquiries with Management and inspection of Board Meeting Minutes. **Key observations** Based on the work performed we did not identify any indications that the carrying value of goodwill and intangible assets is inappropriate.

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

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 £	**Parent Company financial statements £**	Group financial statements £	Parent Company financial statements £
	2022		2021	
Materiality	**5,000,000**	**3,800,000**	4,300,000	3,800,000
Basis for determining materiality	**2.5% of net assets**	**2.5% of net assets**	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	**3,500,000**	**2,600,000**	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 significant areas subject to estimation together with our assessment of the Group's overall control environment, the expected total value of known and likely misstatements and the level of transactions in the year.			

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 £38,000 to £3,800,000 (2021: £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 £230,000. 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 AIM rules and the principles of the QCA Corporate Governance Code.

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

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 focused 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
6052FC68EBD6446...

Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
4 July 2022

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 2022

	Note	**Year ended 31 March 2022 £'000**	Year ended 31 March 2021 £'000
Revenue	3	**23,183**	23,410
Administrative expenses	7	**(17,857)**	(16,554)
Realised gain on sale of direct investment	17	**9,878**	20,251
Fair value movements in direct investments	4	**11,385**	10,088
Share-based payments charge	6	**(1,109)**	(543)
Amortisation of intangible assets	14	**(2,033)**	(2,317)
Movement in fair value of deferred consideration	22	**(522)**	(365)
Operating profit		**22,925**	33,970
Finance income	8	**4,452**	68
Finance expense	9	**(15)**	(20)
Profit before taxation		**27,362**	34,018
Taxation	10	**(1,262)**	440
Profit and total comprehensive income for the year		**26,100**	34,458
Basic earnings per Ordinary share (pence)	11	**5.93**	7.83
Diluted earnings per Ordinary share (pence)	11	**5.82**	7.83

All results derive from continuing operations.

The notes on pages 79 to 104 are an integral part of these financial statements.

Consolidated statement of financial position
As at 31 March 2022

	Note	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Assets			
Non-current assets			
Goodwill	13	**16,642**	16,642
Intangible assets	14	**15,713**	17,746
Property, plant and equipment	15	**113**	107
Right-of-use assets	16	**417**	456
Investments	17	**119,558**	96,220
Total non-current assets		**152,443**	131,171
Current assets			
Trade and other receivables	18	**1,074**	4,060
Restricted cash	19	**-**	2,484
Short-term liquidity investments	19	**5,235**	234
Cash and cash equivalents	19	**56,049**	54,491
Total current assets		**62,358**	61,269
Total assets		**214,801**	192,440
Current liabilities			
Trade and other payables	20	**(6,963)**	(8,127)
Lease liabilities	21	**(157)**	(122)
Deferred consideration	22	**(2,869)**	(1,578)
Total current liabilities		**(9,989)**	(9,827)
Non-current liabilities			
Lease liabilities	21	**(295)**	(351)
Deferred consideration	22	**-**	(2,869)
Deferred taxation	23	**(3,928)**	(3,372)
Total non-current liabilities		**(4,223)**	(6,592)
Total liabilities		**(14,212)**	(16,419)
Net assets		**200,589**	176,021
Equity			
Issued share capital	24	**4**	4
Share premium	25	**81,644**	81,644
Other distributable reserve	26	**66,919**	69,560
Retained earnings		**48,505**	22,405
Share-based payments reserve		**3,517**	2,408
Total equity		**200,589**	176,021

The notes on pages 79 to 104 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 75 to 104 were approved by the Board of Directors and authorised for issue on 4 July 2022. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 March 2022

	Note	**Year ended 31 March 2022 £'000**	Year ended 31 March 2021 £'000
Cash flows from operating activities:			
Operating profit		**22,925**	33,970
Adjustments to reconcile operating profit to net cash generated from operating activities:			
Depreciation of property, plant and equipment	15	**70**	70
Depreciation of right-of-use assets	16	**154**	142
Gain on sale of direct investment	17	**(9,878)**	(20,251)
Fair value movements in direct investments	4	**(11,385)**	(10,088)
Share-based payments charge	6	**1,109**	543
Amortisation of intangible assets	14	**2,033**	2,317
Movement in fair value of deferred consideration	22	**522**	365
Working capital adjustments:			
Decrease/(increase) in trade and other receivables	18	**2,986**	(2,762)
Increase in trade and other payables		**614**	1,305
Net cash generated from operating activities		**9,150**	5,611
Cash flows from direct investment activities:			
Sale of direct investments	17	**16,309**	36,987
Purchase of direct investments	17	**(19,884)**	(15,647)
Investee company loan repayments	17	**1,500**	250
Investee company loan interest and redemption premiums received	8	**4,438**	50
Net cash generated from direct investment activities		**2,363**	21,640
Cash flows from other investing activities:			
Interest received from cash, cash equivalents and STLI	8	**14**	18
Purchase of property, plant and equipment	15	**(76)**	(52)
Purchase of fund management contracts	22	**(2,100)**	(2,100)
(Increase)/decrease in short-term liquidity investments	19	**(5,001)**	5,981
Net cash (used in)/generated from other investing activities		**(7,163)**	3,847
Net cash (used in)/generated from total investing activities		**(4,800)**	25,487
Cash flows from financing activities:			
Dividends paid	12	**(2,641)**	(440)
Interest paid	9	**(15)**	(20)
Payment of lease liabilities		**(136)**	(118)
Net cash used in financing activities		**(2,792)**	(578)
Net increase in cash and cash equivalents		**1,558**	30,520
Cash and cash equivalents at the beginning of the year		**54,491**	23,971
Cash and cash equivalents at the end of the year	19	**56,049**	54,491

Consolidated statement of changes in equity
For the year ended 31 March 2022

	Issued share capital *(note 24)* £'000	Share premium *(note 25)* £'000	Other distributable reserve *(note 26)* £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**26,100**	**–**	**26,100**
Dividends paid	**–**	**–**	**(2,641)**	**–**	**–**	**(2,641)**
Share-based payments charge	**–**	**–**	**–**	**–**	**1,109**	**1,109**
As at 31 March 2022	**4**	**81,644**	**66,919**	**48,505**	**3,517**	**200,589**

Notes to the consolidated financial statements
For the year ended 31 March 2022

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, Warwickshire, 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 2022, 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 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 FY Small Loans) Limited	07222495
EVBL (General Partner EV SME Loans) Limited	08901773
EVBL (General Partner EV SME Loans II) Limited	12872349
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 UK-adopted International Accounting Standards 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Basis of preparation continued

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 continued strength of the Group's balance sheet, including its significant liquidity position at the year end, its forecast future operating and investment activities and, having considered the impact of COVID-19 and the war in Ukraine 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 12 months from the date of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing these consolidated financial statements.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of Mercia Asset Management PLC and entities controlled by it (its subsidiaries). 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.

Direct investments

Investments that are held as part of the Group's investment portfolio are carried 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

No new standards, interpretations and amendments effective in the year have had a material effect on the Group's financial statements.

New standards, interpretations and amendments not yet effective

No new standards, interpretations and amendments not yet effective are expected to have a material impact on the Group's future financial statements.

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 FuM 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 from 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Revenue recognition continued

Performance fees

Performance fees are earned when specified performance metrics exceed hurdles set out within fund management agreements, or when 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 on debt investments made to direct portfolio investee companies, including any redemption premiums, is recognised when it is highly probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income earned on cash deposits and short-term liquidity investments 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 leases in excess of one year, where the Group is the lessee, are included on the Group's statement of financial position 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 property assets are determined on the same basis as those of property and equipment. The estimated useful lives of right-of-use vehicle assets are determined on the length of the lease term. The right-of-use assets are reviewed annually for impairment in accordance with IAS 36, 'Impairment of Assets'.

The lease liability is initially measured as 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 statement of financial position.

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.

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 consider 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' 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 asset 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Goodwill

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

Property, plant and equipment

Tangible assets are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their expected useful lives, using the straight-line method, on the following basis:

Furniture, fixtures and office equipment	3 years
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 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.

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 between three and 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.

1. Accounting policies continued

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 mean there is risk of a material adjustment to the carrying amounts of assets and liabilities. These judgements include a decision on 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, with consideration given to the Coronavirus Special Valuations Guidance issued in March 2020.

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 the investment round 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 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.

The current macroeconomic environment continues to generate sustained uncertainty over 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 consider that a reasonably possible change in estimate would result in a material change in the value of each investment.

Valuation of deferred consideration
The fair value of the deferred consideration payable 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 2022. The conditions upon which payment of the deferred consideration is contingent are outlined below and included in note 22 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. With no notice having been received as of the date of signing these financial statements, the first and second deferred consideration payments of £2,100,000 were paid in cash by the Group in December 2020 and December 2021. There have been no indications to date that notice will be given before the third anniversary.

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 as at 31 March 2022 would reduce by £100,000.

Notes to the consolidated financial statements continued

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 Operating Segments the Group has only one operating segment, being proactive specialist asset management, because the results of the Group are monitored on a Groupwide basis. The Board of Directors assesses the performance of the operating segment using financial information which is measured and presented in a consistent manner.

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

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Fund management fees	**14,957**	13,143
Initial management fees	**2,456**	1,447
Portfolio directors' fees	**2,969**	3,086
VCTs share offer fees	**-**	1,318
Performance fees	**2,607**	4,224
Other revenue	**194**	192
	23,183	23,410

4. Fair value movements in investments

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Net fair value movements in investments (note 17)	**11,385**	10,088

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 2022 Number	Year ended 31 March 2021 Number
Asset management	**82**	70
Central functions	**26**	29
	108	99

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 2022 £'000	Year ended 31 March 2021 £'000
Wages and salaries	**10,972**	9,143
Social security costs	**1,243**	912
Other pension costs (note 27)	**746**	648
	12,961	10,703

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 66, which forms part of these financial statements.

6. Share-based payments charge

The Group operates a share option scheme for Executive Directors and all employees of the Group. Further details are set out on pages 65 to 67 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2022 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	31 July 2019	30 July 2029	1,672,504	33.50p
	28 January 2020	27 January 2030	1,571,113	24.30p
	21 August 2020	20 August 2030	1,071,878	21.50p
	9 July 2021	8 July 2031	1,123,116	38.50p
Unapproved share option scheme	31 July 2019	30 July 2029	835,496	33.50p
	28 January 2020	27 January 2030	3,351,026	24.30p
	21 August 2020	20 August 2020	8,015,122	21.50p
	9 July 2021	8 July 2031	1,066,884	38.50p
	9 July 2021	9 July 2024	8,800,000	0.00p
			27,507,139	

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

	Year ended 31 March 2022		Year ended 31 March 2021	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**20,784,140**	**25.37p**	15,700,140	30.22p
Granted during the year	**11,020,000**	**7.76p**	9,497,000	21.50p
Forfeited during the year	**(690,001)**	**27.11p**	(1,830,000)	30.18p
Expired during the year	**(3,607,000)**	**30.80p**	(2,583,000)	37.21p
Share options outstanding as at 31 March	**27,507,139**	**17.57p**	20,784,140	25.37p

The options outstanding at 31 March 2022 had a weighted average remaining contractual life of two years (2021: two years). No share options were exercised during the years ended 31 March 2022 or 31 March 2021.

Fair value charge

The fair value charge for the share options in issue is based on the following models and 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
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
9 July 2021	38.50p	38.50p	0.5%	10 years	40%	10.83p
9 July 2021	0.001p	0.001p	0.5%	3 years	40%	18.85p

On the 9 July 2021, share options were granted with a total estimated fair value of £2,069,000. In the year ended 31 March 2021, share options were granted on 21 August 2020 with an estimated fair value of £992,000.

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 £1,109,000 (2021: £543,000).

Notes to the consolidated financial statements continued

7. Operating profit

Operating profit is stated after charging:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Administrative expenses:		
Staff costs including bonuses linked to performance fees (note 5)	**12,961**	10,703
Marketing, professional adviser, travel and entertainment and other administration costs	**4,150**	5,111
Depreciation of property, plant and equipment (note 15)	**70**	70
Depreciation of right-of-use assets (note 16)	**154**	142
Expenses relating to short-term leases and leases of low-value assets (note 21)	**327**	309
Auditor's remuneration[1]:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**115**	115
– Fees payable to the Company's auditor for other services:		
– Review of the interim accounts of the Company	**20**	44
– The audit of accounts of subsidiaries of the Company	**46**	46
– CASS related assurance services	**14**	14
Total administrative expenses	**17,857**	16,554

1 The auditor's remuneration for the review of the interim financial statements for the year ended 31 March 2021 relate to services provided by the Group's former auditors

8. Finance income

Finance income is derived from:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Cash and cash equivalents	**12**	5
Short-term liquidity investments	**2**	13
Investee company loans (interest and redemption premiums)	**4,438**	50
Total interest income	**4,452**	68

9. Finance expense

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Interest on lease liabilities	**15**	20
Total interest expense	**15**	20

10. Taxation

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Current tax		
UK corporation tax	**(706)**	-
Deferred tax		
Origination and reversal of temporary timing differences	**508**	440
Effects of changes in tax rates	**(1,064)**	-
Total tax (charge)/credit	**(1,262)**	440

The UK standard rate of corporation tax is 19% (2021: 19%). The deferred tax credit of £508,000 (2021: £440,000) represents the unwinding of the deferred tax liabilities recognised in respect of the intangible assets arising on the acquisition of the VCT fund management business.

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

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Profit before taxation	**27,362**	34,018
Tax at the standard rate of corporation tax in the UK of 19% (2021: 19%)	**(5,199)**	(6,463)
Effects of:		
Income not subject to tax	**4,039**	6,938
Expenses not deductible for tax purposes	**(314)**	(193)
Share of partnership profits	**(513)**	-
Remeasurement of deferred tax for changes in tax rates	**252**	-
Other timing differences not recognised	**473**	158
Total tax (charge)/credit	**(1,262)**	440

An increase in the UK corporation tax rate from 19% to 25%, with effect from 1 April 2023, was substantively enacted on 24 May 2021. The Group's deferred tax liability has been calculated at a rate of 25% as at 31 March 2022 (2021: 19%).

A deferred tax liability of £3,928,000 (2021: £3,372,000) continues to be recognised in respect of the intangible assets arising on the acquisition of the VCT fund management business in December 2019.

A potential deferred tax asset of £4,442,000 (2021: £5,722,000) for cumulative unrelieved management expenses and other tax losses has not been recognised in these consolidated financial statements as their future use is uncertain.

Notes to the consolidated financial statements continued

11. Earnings per share

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

	Year ended 31 March 2022	Year ended 31 March 2021
Profit for the financial year (£'000)	**26,100**	34,458
Basic weighted average number of Ordinary shares ('000)	**440,110**	440,110
Basic earnings per Ordinary share (pence)	**5.93**	7.83
Diluted weighted average number of Ordinary shares ('000)	**448,466**	440,110
Diluted earnings per Ordinary share (pence)	**5.82**	7.83

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

	Year ended 31 March 2022 '000	Year ended 31 March 2021 '000
Weighted average number of shares		
Basic	**440,110**	440,110
Dilutive impact of share options	**8,356**	-
Diluted weighted average number of Ordinary shares	**448,466**	440,110

12. Dividends

	Year ended 31 March 2022		Year ended 31 March 2021	
Dividends declared/proposed in respect of the year	**Pence per share**	**£'000**	Pence per share	£'000
Interim dividend declared in relation to year ended 31 March 2021	-	-	0.1	440
Final dividend declared in relation to year ended 31 March 2021	-	-	0.3	1,320
Interim dividend declared in relation to year ended 31 March 2022	**0.3**	**1,320**	-	-
Final dividend proposed in relation to year ended 31 March 2022	**0.5**	**2,201**	-	-
Total	**0.8**	**3,521**	0.4	1,760

	Year ended 31 March 2022		Year ended 31 March 2021	
Dividends paid during the year	**Pence per share**	**£'000**	Pence per share	£'000
Interim dividend paid in relation to year ended 31 March 2021	-	-	0.1	440
Final dividend paid in relation to year ended 31 March 2021	**0.3**	**1,320**	-	-
Interim dividend paid in relation to year ended 31 March 2022	**0.3**	**1,321**	-	-
Total	**0.6**	**2,641**	0.1	440

The final dividend for the year ended 31 March 2022 proposed by the Board of 0.5 pence per share, totalling £2,201,000, is subject to shareholder approval at the AGM on 13 September 2022, and as such has not been included as a liability in these financial statements in accordance with IAS 10.

13. Goodwill

Goodwill arising on the businesses acquired to date is set out in the table below:

	Mercia Fund Management £'000	Enterprise Ventures Group £'000	VCT fund management business £'000	Total £'000
Cost				
As at 1 April 2020, 31 March 2021 and 31 March 2022	**2,455**	**7,873**	**6,314**	**16,642**

Goodwill for each business acquired has been assessed for impairment as at 31 March 2022. 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 2023. Key assumptions are a discount rate of 10% and the growth rates used in forecasting future operating results. Where the fund management contracts are 'evergreen', a value into perpetuity has been used based on a zero growth rate beyond a 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 a reasonably possible change in a key assumption would reduce the recoverable amount of the CGUs to their carrying value.

14. Intangible assets

Intangible assets represent contractual arrangements in respect of the acquired VCT fund management business and the acquisition of Enterprise Ventures Group, 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. The intangible asset recognised on the acquisition of Enterprise Ventures Group in 2016 became fully amortised in March 2021.

	£'000
Cost	
As at 1 April 2020, 31 March 2021 and 31 March 2022	**21,835**
Accumulated amortisation	
As at 1 April 2020	1,772
Charge for the year	2,317
As at 31 March 2021	**4,089**
Charge for the year	**2,033**
As at 31 March 2022	**6,122**
Net book value	
As at 1 April 2020	20,063
As at 31 March 2021	17,746
As at 31 March 2022	**15,713**

Notes to the consolidated financial statements continued

15. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2020	42	78	488	608
Additions	–	–	52	52
As at 31 March 2021	**42**	**78**	**540**	**660**
Additions	**–**	**–**	**76**	**76**
As at 31 March 2022	**42**	**78**	**616**	**736**
Accumulated depreciation				
As at 1 April 2020	20	64	399	483
Charge for the year	5	4	61	70
As at 31 March 2021	**25**	**68**	**460**	**553**
Charge for the year	**5**	**2**	**63**	**70**
As at 31 March 2022	**30**	**70**	**523**	**623**
Net book value				
As at 1 April 2020	22	14	89	125
As at 31 March 2021	17	10	80	107
As at 31 March 2022	**12**	**8**	**93**	**113**

16. Right-of-use assets

	Motor vehicles £'000	Properties £'000	Total £'000
Cost			
As at 1 April 2020 and 31 March 2021	**–**	**737**	**737**
Additions	**115**	**–**	**115**
As at 31 March 2022	**115**	**737**	**852**
Accumulated depreciation			
As at 1 April 2020	–	139	139
Charge for the year	–	142	142
As at 31 March 2021	**–**	**281**	**281**
Charge for the year	**13**	**141**	**154**
As at 31 March 2022	**13**	**422**	**435**
Net book value			
As at 1 April 2020	–	598	598
As at 31 March 2021	–	456	456
As at 31 March 2022	**102**	**315**	**417**

17. Investments

The net change in the value of investments for the year is an increase of £23,338,000 (2021: £8,749,000 increase). The table below reconciles the opening to closing value of investments for both the current and prior years.

	Level 1 financial assets £'000	Level 3 financial assets £'000	Total financial assets £'000
As at 1 April 2021	**4,488**	**91,732**	**96,220**
Investments made during the year	**-**	**19,884**	**19,884**
Investee company loan repayment	**-**	**(1,500)**	**(1,500)**
Disposal	**-**	**(6,431)**	**(6,431)**
Unrealised fair value gains on investments	**-**	**15,122**	**15,122**
Unrealised fair value losses on investments	**(2,856)**	**(881)**	**(3,737)**
As at 31 March 2022	**1,632**	**117,926**	**119,558**

	Level 1 financial assets £'000	Level 3 financial assets £'000	Total financial assets £'000
As at 1 April 2020	475	86,996	87,471
Investments made during the year	504	15,143	15,647
Investee company loan repayments	-	(250)	(250)
Disposals	-	(16,736)	(16,736)
Unrealised fair value gains on investments	3,509	7,264	10,773
Unrealised fair value losses on investments	-	(685)	(685)
As at 31 March 2021	4,488	91,732	96,220

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.

On 4 January 2022, the Group completed the sale of its investment in Faradion Limited, generating a realised gain of £9,878,000. Total cash proceeds of £19,402,000 were received upon completion, comprising £16,309,000 from the sale of the Group's equity holding, a loan repayment of £1,500,000, a loan redemption premium of £1,500,000 and loan interest of £93,000. Additional loan redemption premiums and interest, totalling £738,000, converted into equity immediately prior to disposal of the Group's total equity holding.

Investments held as part of the Group's direct investment portfolio are carried 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 2022 £'000	As at 31 March 2021 £'000
Listed investment	**1,632**	4,488
Price of last investment round	**62,233**	48,210
Enterprise value	**37,772**	26,717
Cost	**5,625**	3,245
Impaired value[1]	**12,296**	13,560
	119,558	96,220

1 Valued using valuation methodologies consistent with the Group's accounting policy

Notes to the consolidated financial statements continued

17. Investments continued

As at 31 March 2022, 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
Impression Technologies Limited	**67.3**	**(251)**	**(1,893)**	**31 December 2020**
Intechnica Group Limited	**24.1**	**(2,630)**	**(2,221)**	**31 March 2021**
LM Technologies	**48.3**	**(248)**	**(261)**	**31 December 2021**
Medherant Limited	**33.1**	**(2,180)**	**(2,337)**	**31 March 2021**
nDreams Limited	**33.2**	**(1,210)**	**(1,969)**	**31 March 2021**
Invincibles Studio Limited[1]	**39.0**	**(2,552)**	**137**	**31 October 2020**
sureCore Limited	**22.0**	**(544)**	**(707)**	**30 June 2021**
Ton UK Limited t/a Intelligent Positioning	**29.9**	**3,497**	**(582)**	**31 December 2020**
VirtTrade Limited t/a Avid Games	**40.6**	**(5,469)**	**(1,293)**	**31 August 2021**
Warwick Acoustics Limited	**40.0**	**4,301**	**(531)**	**30 September 2021**

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 Group Limited	27.5	(397)	(1,641)	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
Invincibles Studio Limited[1]	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	3,130	(237)	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

1 Formerly Soccer Manager Limited, prior to a change in registered name to Invincibles Studio Limited in March 2022

18. Trade and other receivables

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Current:		
Trade and other receivables	**666**	599
Less: expected credit loss allowance	**(318)**	(285)
Net trade receivables	**348**	314
Other receivables	**193**	67
Prepayments and accrued income	**533**	3,679
	1,074	4,060

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 2022, an amount of £318,000 (2021: £285,000) 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 2022		Year ended 31 March 2021	
	Gross £'000	**Expected credit loss allowance £'000**	Gross £'000	Expected credit loss allowance £'000
Not past due	**178**	**(11)**	77	–
Past due 0-30 days	**63**	**(6)**	58	(14)
Past due 31-60 days	**90**	**(39)**	47	(19)
Past due more than 61 days	**335**	**(262)**	417	(252)
	666	**(318)**	599	(285)

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 2022 £'000	Year ended 31 March 2021 £'000
As at 1 April	**285**	205
Increase in loss allowance	**180**	235
Amounts recovered	**(147)**	(155)
As at 31 March	**318**	285

The net increase in the expected credit loss allowance of £33,000 (2021: £80,000) 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.

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

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Total cash and cash equivalents	**56,049**	54,491
Total short-term liquidity investments	**5,235**	234
Total restricted cash	**–**	2,484

As at 31 March 2022, the Group held £815,000 of proceeds from the disposal of Faradion Limited, a direct investment sold on 4 January 2022 (see note 17). Under the terms of sale, 5% of the equity sale proceeds were required to be ring-fenced for 90 days post completion. On 4 April 2022 the holding period lapsed and these proceeds became available for use by the Group. As at 31 March 2022 this amount is recorded within cash and cash equivalents.

The Group no longer holds cash on behalf of third-party EIS investors (2021: £2,484,000).

Notes to the consolidated financial statements continued

20. Trade and other payables

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Trade payables	**412**	326
Corporation tax	**706**	-
Other taxation and social security	**854**	240
Other payables	**733**	3,233
Accruals and deferred income	**4,258**	4,328
	6,963	8,127

As at 31 March 2022, no cash was held on behalf of EIS investors and therefore other payables includes no corresponding liability (2021: £2,484,000).

21. Lease liabilities

The Group holds leases for use of office premises and electric vehicles. 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 incremental borrowing rate applied to property lease liabilities recognised as at 31 March 2022 is 3.25% (2021: 3.25%). The average incremental borrowing rate applied to vehicle lease liabilities recognised as at 31 March 2022 is 4% (2021: nil). As at 31 March 2022, the Group had no lease liabilities in respect of leases committed to but not yet commenced (2021: none). The table below summarises the annual lease costs.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Depreciation expense	**154**	142
Interest expense	**15**	20
Low-value lease expense	**316**	278
Short-term lease expense	**11**	31

The maturity profile of the Group's leases accounted for under IFRS 16 are set out in the table below:

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Due within one year	**157**	122
Due between one and five years	**295**	351
	452	473

22. Deferred consideration

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Payable within one year	**2,869**	1,578
Payable within two to five years	**-**	2,869
	2,869	4,447

On 23 December 2019, Mercia completed the acquisition of the Northern 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 on the third anniversary. In December 2020 and December 2021, the first and second cash instalments of £2,100,000 respectively, were paid by the Group.

Half of the deferred consideration shares will be payable if the Group has received at least £16,000,000 in fund management fees in respect of the Northern VCT contracts (excluding performance fees) during the three years post completion. The remaining 50% of the deferred consideration shares will be allotted and issued if, during the same three-year period, the 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 £522,000 (2021: £365,000).

23. Deferred taxation

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Deferred tax liability	**3,928**	3,372

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. As at 31 March 2022, the deferred tax liability has been calculated using the substantively enacted tax rate of 25% - see note 10 for further detail.

24. Issued share capital

	31 March 2022		31 March 2021	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
Ordinary shares	**440,109,707**	**4**	440,109,707	4

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

25. Share premium

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Share premium	**81,644**	81,644

26. Other distributable reserve

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
As at the beginning of the year	**69,560**	70,000
Dividends paid (note 12)	**(2,641)**	(440)
As at the end of the year	**66,919**	69,560

27. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2022 was £746,000 (2021: £648,000). As at 31 March 2022, contributions amounting to £13,000 (2021: £11,000) had not yet been paid over to the plans and are recorded in other payables – see note 20.

28. 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 42 to 51 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 2022	FVTPL £'000	Amortised cost £'000	Total £'000
Long-term financial assets	**119,558**	**-**	**119,558**
Trade and other receivables	**-**	**541**	**541**
Short-term liquidity investments	**-**	**5,235**	**5,235**
Cash and cash equivalents	**-**	**56,049**	**56,049**
Short-term financial assets	**-**	**61,825**	**61,825**
Total financial assets	**119,558**	**61,825**	**181,383**
Trade and other payables	**-**	**(1,145)**	**(1,145)**
Accruals	**-**	**(3,428)**	**(3,428)**
Lease liabilities	**-**	**(452)**	**(452)**
Deferred consideration	**(2,869)**	**-**	**(2,869)**
Total financial liabilities	**(2,869)**	**(5,025)**	**(7,894)**

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)
Deferred consideration	(4,447)	–	(4,447)
Total financial liabilities	(4,447)	(7,693)	(12,140)

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 cash on 95-day deposit with a UK bank.

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.

Notes to the consolidated financial statements continued

28. Financial risk management continued

Market risk continued

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

As at 31 March 2022	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000
Trade payables	–	**412**	–	–	**412**
Other payables	–	**4,991**	–	–	**4,991**
Deferred consideration (note 22)	–	–	**2,100**	–	**2,100**
Lease liabilities	–	**43**	**129**	**307**	**479**
	–	**5,446**	**2,229**	**307**	**7,982**

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	–	4,410	–	–	4,410
Client money held	2,484	–	–	–	2,484
Deferred consideration (note 22)	–	–	2,100	2,100	4,200
Lease liabilities	–	34	103	372	509
	2,484	4,770	2,203	2,472	11,929

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 FuM, 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 2022 £'000	As at 31 March 2021 £'000
Net trade receivables	**348**	314
Other receivables	**193**	67
Cash at bank and in hand	**56,049**	54,491
Short-term liquidity investments	**5,235**	234
	61,825	55,106

The Directors consider that all of 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 2022, an amount of £318,000 (2021: £285,000) 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' long-term deposit rating as at the year ended 31 March 2022.

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 statement of financial position. 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 2022. There have been no movements in financial assets or financial liabilities between levels during the current or prior years. The table in note 17 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 2022 £'000	As at 31 March 2021 £'000
Assets:		
Financial assets at fair value through profit or loss – direct investment portfolio		
Level 1	**1,632**	4,488
Level 2	**-**	-
Level 3	**117,926**	91,732
	119,558	96,220

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Liabilities:		
Financial liabilities at fair value through profit or loss – deferred consideration		
Level 1	**-**	-
Level 2	**-**	-
Level 3	**2,869**	4,447
	2,869	4,447

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 2022.

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 note 17 of these consolidated financial statements, and on an individual direct investment basis within the Chief Investment Officer's review on page 15.

29. 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 66. Directors' shareholdings in the Group are disclosed on page 67 of the Remuneration Report.

30. Ultimate controlling party

The Group has no single ultimate controlling party.

31. Post balance sheet events

There have been no material events since 31 March 2022.

Company balance sheet
As at 31 March 2022

	Note	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	36	**106**	98
Right-of-use assets	37	**315**	456
Investments in subsidiary undertakings	38	**49,133**	49,133
Trade and other receivables	39	**50,500**	80,000
Total non-current assets		**100,054**	129,687
Current assets			
Trade and other receivables	39	**24,977**	263
Short-term liquidity investments		**5,235**	234
Cash at bank and in hand		**24,552**	26,732
Total current assets		**54,764**	27,229
Total assets		**154,818**	156,916
Current liabilities			
Trade and other payables	40	**(1,148)**	(850)
Lease liabilities	41	**(127)**	(122)
Total current liabilities		**(1,275)**	(972)
Non-current liabilities			
Lease liabilities	41	**(222)**	(351)
Total non-current liabilities		**(222)**	(351)
Total liabilities		**(1,497)**	(1,323)
Net assets		**153,321**	155,593
Equity			
Issued share capital	42	**4**	4
Share premium	42	**81,644**	81,644
Other distributable reserve	43	**66,919**	69,560
Retained earnings		**1,237**	1,977
Share-based payments reserve		**3,517**	2,408
Total equity		**153,321**	155,593

The Company's loss for the year was £740,000 (2021: profit of £1,879,000).

The notes on pages 107 to 112 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 105 to 112 were approved by the Board of Directors and authorised for issue on 4 July 2022. 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 2022

	Issued share capital (note 42) £'000	Share premium (note 42) £'000	Other distributable reserve (note 43) £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 2020	4	81,644	70,000	98	1,865	153,611
Total comprehensive income for the year	–	–	–	1,879	–	1,879
Dividend 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**
Total comprehensive expense for the year	**–**	**–**	**–**	**(740)**	**–**	**(740)**
Dividends paid	**–**	**–**	**(2,641)**	**–**	**–**	**(2,641)**
Share-based payments charge	**–**	**–**	**–**	**–**	**1,109**	**1,109**
As at 31 March 2022	**4**	**81,644**	**66,919**	**1,237**	**3,517**	**153,321**

Notes to the Company financial statements
For the year ended 31 March 2022

32. 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.

Going concern
Based on the continued strength of the Company's balance sheet, including its significant liquidity position at the year end, its forecast future operating and investment activities and, having considered the ongoing impact of COVID-19 and the war in Ukraine 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 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
No new standards, interpretations and amendments effective in the year have had a material effect on the Company's 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	3 years
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'.

Notes to the Company financial statements continued

32. Accounting policies continued

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.

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.

33. Critical accounting judgements and key sources of estimation uncertainty

Details of critical accounting judgements, estimates and associated assumptions are disclosed in note 2 to the consolidated financial statements.

34. 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
- 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)
  - 134-136 (capital management disclosures).

35. 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.

36. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2020	42	39	317	398
Additions	–	–	52	52
As at 31 March 2021	**42**	**39**	**369**	**450**
Additions	**–**	**–**	**76**	**76**
As at 31 March 2022	**42**	**39**	**445**	**526**
Accumulated depreciation				
As at 1 April 2020	20	37	228	285
Charge for the year	5	1	61	67
As at 31 March 2021	**25**	**38**	**289**	**352**
Charge for the year	**5**	**–**	**63**	**68**
As at 31 March 2022	**30**	**38**	**352**	**420**
Net book value				
As at 1 April 2020	22	2	*89*	*113*
As at 31 March 2021	17	1	80	98
As at 31 March 2022	**12**	**1**	**93**	**106**

37. Right-of-use assets

	Property £'000
Cost	
As at 1 April 2020, 31 March 2021 and 31 March 2022	**702**
Accumulated depreciation	
As at 1 April 2020	104
Charge for the year	142
As at 31 March 2021	**246**
Charge for the year	**141**
As at 31 March 2022	**387**
Net book value	
As at 1 April 2020	598
As at 31 March 2021	456
As at 31 March 2022	**315**

Notes to the Company financial statements continued

38. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2020	40,133
Additions	9,000
As at 31 March 2021 and 31 March 2022	**49,133**

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

Details of the Company's subsidiary undertakings as at 31 March 2022 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.

39. Trade and other receivables

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**24,656**	–
Other debtors	**61**	55
Prepayments and accrued income	**260**	208
Current assets	**24,977**	263
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**50,500**	80,000
Non-current assets	**50,500**	80,000

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.

40. Trade and other payables

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Trade payables	**160**	–
Amounts due from subsidiary undertakings	**251**	138
Accruals and deferred income	**715**	712
Other payables	**22**	-
	1,148	850

41. 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 2022 £'000	Year ended 31 March 2021 £'000
Depreciation expense	**141**	142
Interest expense	**14**	20
Short-term lease expense	**71**	60
Low-value lease expense	**7**	29

The maturity profile of the Company's leases accounted for under IFRS 16 are set out in the table below:

	As at 31 March 2022 £'000	As at 31 March 2021 £'000
Due within one year	**127**	122
Due between one and five years	**222**	351
	349	473

The undiscounted lease liability due within one year is £135,000 (2021: £135,000), and £231,000 (2021: £367,000) between one and five years.

Notes to the Company financial statements continued

42. Issued share capital and share premium
The movements in issued share capital and share premium are disclosed in notes 24 and 25 to the consolidated financial statements.

43. Other distributable reserve
The movements in other distributable reserve are disclosed in note 26 to the consolidated financial statements.

44. 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 2022 Number	Year ended 31 March 2021 Number
Central functions	**10**	10

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 2022 £'000	Year ended 31 March 2021 £'000
Wages and salaries	**1,060**	1,040
Social security costs	**119**	100
Other pension costs (note 45)	**50**	53
	1,229	1,193

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 63 to 67 of this Annual Report.

45. Retirement benefit schemes
The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2022 was £50,000 (2021: £53,000). As at 31 March 2022, no contribution payments were outstanding (2021: £nil).

46. 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 29 of the consolidated financial statements details the Group's related party transactions.

47. Ultimate controlling party
The Company has no single ultimate controlling party.

48. Post balance sheet events
There have been no material events since 31 March 2022.

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 Williams

Company website
www.mercia.co.uk

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

Independent auditor
BDO LLP
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 13 September 2022 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 7 as ordinary resolutions and resolutions 8 and 9 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 2022 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2022.
3. That Ian Metcalfe, who retires as a Director in accordance with Article 88.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
4. That Dr Mark Payton, who retires as a Director in accordance with Article 88.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
5. To reappoint 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

6. That the Directors be and are hereby generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the "Act"), to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company, up to an aggregate maximum nominal amount of £440.10, provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2023 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.
7. That a final dividend of 0.5 pence per Ordinary share for the year ended 31 March 2022 be declared.

Special resolutions

8. That, subject to the passing of resolution 6, the Directors be and are hereby empowered, pursuant to sections 570 and 573 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 6 above, or by way of sale of treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment and/or sale of equity securities, up to an aggregate nominal amount of £440.10, provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2023 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.
9. 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
   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 2023 save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase Ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

By order of the Board of Directors

Sarah-Louise Williams
Company Secretary
29 July 2022

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

Notes

Proxies

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend, speak and vote on the same occasion provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each form, together with the number of shares that such proxy is appointed in respect of (which, in aggregate, should not exceed the number of shares held by the member). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. A form of proxy is enclosed with this notice. Forms of proxy may also be obtained on request from the Company's registered office. In order to be valid any proxy form appointing a proxy must be returned duly completed no later than 10:00 am on 9 September 2022 (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, P.O. Box 5222, Lancing, BN99 9FG, 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 9 September 2022 (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 9 September 2022 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 29 July 2022, 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 29 July 2022 is 440,109,707.

Notice of Annual General Meeting continued

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

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 29 July 2022 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.

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 2022.
2. Resolution 2 – the shareholders are requested to approve the Remuneration Report for the year ended 31 March 2022.
3. Resolutions 3 and 4 – retirement of Directors by rotation – pursuant to Article 88.1 of the Articles, at each AGM, any Directors who are required to retire by rotation pursuant to the Articles, shall retire and submit themselves for re-election by shareholders.
4. Resolution 5 – auditor re-appointment and remuneration – at each meeting at which the Company's accounts are presented to its shareholders, the Company is required to appoint an auditor to serve until the next such meeting and seek shareholder consent for the Directors to set the remuneration of the auditor.
5. Resolution 6 – general authority to allot – this resolution, to be proposed as an ordinary resolution, relates to the grant to the Directors of authority to allot unissued Ordinary shares until the earlier of the conclusion of the AGM to be held in 2023 and 30 September 2023 (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 29 July 2022 (the latest practicable date prior to the publication of this document)).
6. Resolution 7 – declaration of final dividend – pursuant to Article 138.1 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 11 October 2022 to the holders of Ordinary shares on the Register of Members at the close of business on 23 September 2022.
7. Resolution 8 – statutory pre-emption rights – the Act requires that if the Directors decide to allot unissued shares in the Company or transfer them out of treasury, the shares proposed to be issued or transferred must be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company, the Directors may require flexibility to allot and/or transfer shares out of treasury for cash without regard to the provisions of section 561(1) of the Act. Therefore this resolution, to be proposed as a special resolution, seeks authority to enable the Directors to allot and/or transfer equity securities out of treasury up to a maximum nominal amount of £440.10 (representing 10% of the issued Ordinary share capital of the Company as at 29 July 2022 (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 2023 and 30 September 2023 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
8. Resolution 9 – 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 29 July 2022 (the latest practicable date prior to the publication of this document)). There is no present intention to exercise such general authority. Any repurchase of Ordinary shares will be made subject to the Act and within guidelines established from time to time by the Directors (which will take into account the income and cash flow requirements of the Company) and will be at the absolute discretion of the Directors, and not at the option of shareholders. Subject to shareholder authority for the proposed repurchases, general purchases of the Ordinary shares in issue will only be made through the market. Such purchases may only be made provided the price to be paid is not more than the higher of: (i) 5% above the average of the middle market quotations for the Ordinary shares for the five business days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase.

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