mercia
asset management

Focused on growth

Annual Report & Accounts 2023

Welcome

We are trusted to deliver time and time again for all of our stakeholders.

> **Mercia's investment has been truly transformational.**
>
> John von Benecke,
> CEO of Locate Bio

Impact investor

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

Mercia by numbers

Financial highlights

£25.9m
Revenue
2022: £23.2m

£37.8m
Cash*
2022: £61.3m

£2.4m
Profit before taxation ("PBT")
2022: £27.4m

£202.9m
Net assets
2022: £200.6m

£3.0m
Cash generated from operating activities
2022: £9.2m

45.4p
Net assets per share ("NAV")
2022: 45.6p

0.53 pence/share
Proposed final dividend
2022: 0.50 pence/share

£1.4bn
Assets under Management ("AuM")
2022: c.£959m

* Including short-term liquidity investments

Operational highlights

- Frontier Development Capital Limited ("FDC") acquired in December 2022 adding c.£415million of funds under management ("FuM")
- Organic FuM inflows of c.£134million during the year and no redemptions
- Strong liquidity across both the Group's balance sheet and managed funds, with c.£378million of unrestricted cash
- c.£165million invested into 176 businesses, including 85 new companies
- Proposed final dividend increase of 6.0%

For more and the latest information please visit our website at: **www.mercia.co.uk**

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Non-executive Chair's statement

Ian R Metcalfe OBE
Non-executive Chair

Profitable growth

It is just over three years since we all heard those words "you must stay at home" and it is sometimes easy to forget just how tough those early days and months in particular were.

In my Chair statement for the year ended 31 March 2020, I said that "times such as these can be challenging and difficult, but they can also be defining moments". I am pleased to say that the latter has proven to be the case for Mercia Asset Management PLC during the unprecedented period of pandemic, economic and geo-political upheaval which has followed.

It is worth reflecting on the tangible progress that has been made by Mercia during this three-year period, by comparing the following two reporting years:

	31 March 2023 £'000	31 March 2020 £'000	Movement %
Assets under management	**1,437,300**	798,700	+80
Revenue	**25,881**	12,747	+103
Adjusted operating profit	**7,586**	518	+1,364
Operating cash inflow	**3,019**	136	+2,120
Unrestricted cash (incl. short-term liquidity investments)	**37,834**	30,653	+23
Net assets	**202,921**	141,460	+43
Net assets per share (pence)	**45.4**	32.1	+41
Dividends per share (interim paid and final proposed) (pence)	**0.86**	–	–
Number of colleagues	**142**	93	+53

This material growth in all key metrics, in the face of the last three challenging years, amply validates our business model.

Progressing our strategy despite market headwinds – Mercia 20:20

Launched on 1 April 2021, the Group's current three-year strategic plan is known as Mercia 20:20. The Group's twin objectives are to:

- grow AuM by an average of 20% per annum over the three years to 31 March 2024; and
- deliver average pre-tax profits of £20million per annum over the same three-year period.

The Group remains focused on seeking to achieve both of these objectives during this, the final year of the current strategic plan. In relation to the Group's AuM growth objective, in December 2022 we were pleased to welcome the staff of FDC into our #OneMercia family. A highly respected and growing regionally focused specialist lender, FDC complements our existing small and medium-sized enterprise ("SME") lending operations. It has already grown its own FuM in the first few months since acquisition. We not only welcome FDC's staff to Mercia, but also their key fund investors and regional stakeholders, whom we will ensure continue to receive the standard of professional investment and service that they have come to expect from FDC.

Dividend

Mercia adopted its progressive dividend policy in December 2020, when the Group declared its maiden interim dividend of 0.10 pence per share. Since then, Mercia's continued progress has merited measured increases in both the interim and final dividends. Last December, the Group paid an interim dividend of 0.33 pence per share and is now recommending a final dividend of 0.53 pence per share, making 0.86 pence per share for the full year (2022: 0.80 pence per share), a 7.5% increase on the prior year.

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

Governance and engagement

Good governance is fundamental to the long-term success of any company. Last year, 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 AIM in December 2014. In May this year, we invited the independent reviewer back to check on our progress against her recommendations, which she confirmed have been positive. Further information on the review is on page 46 of this annual report.

Part of the Board's work during the past year has been the evolution and composition of its governance structures. This has included Mercia's Senior Independent Director, Diane Seymour-Williams, succeeding myself as Chair of the Remuneration Committee and joining the Nominations Committee. The terms of reference of each Committee have also been reviewed and where appropriate, updated.

It remains critical to our future success that we continue to meet the investment objectives agreed with our many asset class fund investors. This includes our institutional investors, individual investors and the independent boards of the three Northern VCTs. In order to continue to support the VCT investment team in successfully managing and expanding the VCT portfolios and respective NAVs, Peter Dines has relinquished his Chief Operating Officer role to dedicate himself to co-leading our national venture team.

We have begun the search for Peter's replacement as COO, and have received many high-quality applications.

Proactive engagement with all of our stakeholder groups remains particularly important to our Board. Hence, for the first time since our early years, we will be holding our forthcoming Annual General Meeting in London. I look forward to engaging with all of our leading stakeholders during the current financial year.

Responsible investing and culture

For Mercia, responsible investing and company culture go hand-in-hand. We invest with purpose to make a return for our investors, but in such a manner that treats all of our stakeholders and the environment with respect. This respect includes the careful management of any potential conflicts of interest, be they perceived or actual. Culture should never be static and we continue to look at ourselves to see how we can increase our own contribution to the fundamentally important areas of employee well-being and support. We do this through proactive engagement together with a commitment to diversity, wider society and the environment. Our #OneMercia ethos embodies all of these aspects of life. We have continued to adopt a flexible approach to the working week, recognising the needs and mental well-being of our staff. We also recognise the importance of face-to-face collaboration, side-by-side training and the many psychological and social benefits of our friendly open-plan office culture. We believe that team working is best achieved when everyone is together, and we will continue to balance all of these aspects to provide the best possible outcomes for our investors, investees and employees.

Although not yet mandatory for Mercia, we continue to measure and offset our environmental impact. We are fortunate that our business model leaves a relatively small carbon footprint, but we still want to play our part in helping the environment. In terms of both good governance and good citizenship, we believe in practising what we ask of our investee companies, all as part of our mantra of 'responsible investing with purpose'. Carbon offsetting is a positive step, and we will continue to seek ways to reduce our carbon footprint over time.

Opportunity

The many varied and well documented challenges of the last three years have shown the importance of our strong #OneMercia culture, which underpins all that we do, particularly our strong overall financial performance. The significant profitable and cash generative growth that we have achieved during this period has been funded entirely from our own financial resources, without dilutive recourse to shareholders or the need to borrow from third-parties. We see no need for this to change in the foreseeable future.

These financial results clearly demonstrate the robustness and continued maturing of our business model, which is now proven to work in both good and tough times. As Chair, I remain immensely proud to be part of #OneMercia, and on behalf of our Board, I sincerely thank each and every person connected in one way or another with our Group for your continuing support. Notwithstanding the uncertain backdrop, our carefully managed and healthy funds and balance sheet cash positions allow us to remain entirely focused on our respective fund mandates and our strategic priorities, and as a result, we are optimistic for further near and long-term growth.

Ian R Metcalfe OBE
Non-executive Chair

Investment case

Daniela Tsoneva
Investment Director

Our hybrid investment model of profitable fund management operations and proprietary investments, enables sustainable growth.

Preferred choice

Mercia by numbers

Investments this year
176

#OneMercia team members
142

Non-executives in our network
1,170

Number of companies in our portfolios
c.570

Hybrid investment model: A successful formula

Mercia offers a comprehensive range of investment solutions through a robust hybrid investment model, including balance sheet investment, venture capital, private equity and debt finance. By achieving critical mass and leveraging synergies, Mercia seeks to establish itself as the preferred choice for investors, providing opportunities for investment across the regions of the UK.

Investment focus
Mercia has a broad sector focus with a strong track record for our expertise in supporting high-potential businesses across various sectors. This enables us to capture opportunities in emerging industries and adapt to evolving market trends.

Accelerating growth through support
Going beyond capital investment, Mercia provides extensive support and guidance to our portfolio companies. Our relentless focus on value-add provides founders with strategic advice, operational expertise, mentoring and access to a vast network of industry connections, fostering growth and success.

National footprint, regional strength
Mercia has a strong presence in regional ecosystems throughout the UK. By actively engaging with local businesses, universities and research institutions, Mercia taps into a rich pipeline of innovative ventures. This regional strength enhances deal flow and fosters collaboration, driving regional economic growth.

Case studies

Social Value Portal:

The UK's Social Value Portal, a tech-for-good platform, assists global organisations in measuring and reporting their social, environmental and economic impact. Providing a user-friendly platform based on the National Themes, Outcomes and Measures Framework, it helps businesses, public sector entities and social enterprises quantify and monitor their contributions. This aligns with environmental, social and governance ("ESG") principles, helping to identifying improvement areas, setting goals and creating strategies for greater impact. A £6.5million investment from Mercia's funds as part of an £8.5million funding round, enabled expansion, product diversification and extended reach. The funding underscores the growing demand for impact measurement solutions, highlighting how tech-for-good platforms can transform sustainability practices. *Social Value Portal is advancing social progress,* environmental protection and responsible governance.

Tech-for-good investment

£8.5m

Cornerstone Partnerships:

Cornerstone Partnerships was established in 2016 to address homelessness in the UK by providing socially responsible housing solutions. Through collaboration with local authorities, charities and other similar organisations, the company aims to tackle homelessness, promote social welfare and improve social mobility. Starting with 78 fully furnished properties for The Salvation Army in Coventry, Cornerstone has formed strategic partnerships with various local authorities and charities. Their investment strategy involves extending leasehold terms for existing properties and acquiring additional properties to enhance their quality, value, energy efficiency and sustainability. The company plans to provide 1,000 properties by 2035 by securing funding, reducing cash outflows and acquiring more properties. Cornerstone's approach exemplifies the integration of business objectives with social responsibility, making a significant *impact on the lives of homeless individuals and families while* fostering collaboration within the communities it serves. FDC structured debt funding on behalf of West Midlands Combined Authority to enable Cornerstone to continue its impressive growth and support many more homeless families in the region.

Social mobility investment:

£9.0m

Building lasting partnerships

Mercia's strong reputation and emphasis on responsible investment solidifies our position as a trusted ally, fostering enduring partnerships in the UK market. Our network of Non-executive directors ("NXD"), industry specialists and trusted advisers significantly bolsters our standing as a trusted investment partner, thereby enhancing our deal origination. Beyond aiding boards in achieving optimal outcomes, our cohesive network consistently shares best practices on fostering business growth, fortifying the resilience of our portfolios in the process.

Exit strategies for mutual benefit

Mercia has a proven track record of successful investments, including numerous exits, IPOs and secondary investments. Mercia strategically plans exits to generate favourable returns for shareholders, investors and management teams, ensuring mutually beneficial outcomes.

Upholding core values

Mercia recognises the importance of ESG factors in long-term value creation. We evaluate potential investments based on ESG criteria, ensuring alignment with sustainable business practices and responsible investing.

Strong team and positive working environment

Mercia is proud of its highly skilled team of investment and support professionals, many with diverse backgrounds and deep industry knowledge. Their collective experience which enables them to identify promising investment opportunities, navigate complex markets and provide comprehensive support to portfolio companies thereby generating value for investors, is a testament to our performance track record. Mercia's emphasis on being a responsible employer creates a rewarding and responsible work environment, attracting and retaining top talent.

Access to capital networks

Mercia has strong relationships with a wide range of capital providers, including other venture capital firms, private equity co-investors and institutional funds. This network enables Mercia to facilitate follow-on funding rounds and support portfolio companies with the capital runway needed to enable optimum exits and timely realisations.

Chief Executive Officer's review

Dr Mark Payton
Chief Executive Officer

"Since our IPO in 2014, each year we have met or beaten market expectations."

Focused strength

With strong regional roots and an established track record, Mercia is a 'one stop' responsible financial partner contributing towards the growth of the UK economy.

Our physical presence in some of the key cities across the UK, including Birmingham, Manchester, Sheffield, Leeds, Bristol, Newcastle and London, results in sight of a significant number of investment opportunities in our sweet spot of ambitious business owners who are looking for between £250,000 and £10million of investment. It is interesting to reflect on the progress made in the last three years since COVID struck in March 2020, with AuM up by c.80%, revenue up by c.103% and NAV per share up by c.41% and with the completion of FY23, our third consecutive year of adjusted operating profits.

Strategy

Despite a challenging FY23 for specialist asset managers in general, Mercia has nevertheless been able to continue with its growth journey. We are now two years into our current three-year strategic plan, Mercia 20:20. Our strategy is to grow our AuM by an average of 20% per annum and deliver average PBT of £20million per annum over three years. Another way of looking at this is reaching c.£1.6billion in AuM and achieving c.£60million in cumulative PBT by the end of FY24.

Mercia 20:20 is set in parallel with our aspirations to also achieve top quartile performance by our managed funds in their asset categories, plus continued growth in the direct investment portfolio as the key element of our consolidated balance sheet. We also remain focused on growing our third-party funds under management resulting in further growth in adjusted operating profit. To achieve these growth targets, we have established interconnected pools of capital and a capability to invest from as little as £250,000 through to £10million. Our average investment size per investee continues to grow, standing at £0.9million in FY23, and we are looking to increase this further in FY24 as we continue to scale Mercia's capital deployment and AuM.

Our focused approach of only investing in domestic UK businesses with relatively modest capital needs (typically less than £30million in their entire growth journey to exit) as a generalist, but with several key sector themes, means that we have a portfolio which we can, if necessary, support entirely from within our own capital resources – thus protecting and preserving value during periods of economic instability. The majority of our AuM (c.86%) is in third-party managed funds, all of our direct investments benefit from shared equity positions alongside one or more of the funds we manage and, as a debt-free Group, we remain confident in Mercia's profitable and cash generative investment model.

Positive progress during the year

Whilst the markets, both public and private, have cooled over the last 12 months, we have seen this as an opportunity to step forward with both corporate and organic investment activity. Testament to this is the recent acquisition of FDC, a business capable of lending up to £10million per transaction, now with c.£445million in third-party FuM, headquartered in the heart of Birmingham. In addition, in the last financial year we have supported 173 businesses and invested c.£155million, of which c.£21million was from our own cash resources. Since Mercia's inception, we have backed countless founders with their ambitious goals for growth and we will continue to do so, as we seek to become one of the leading wealth enablers in the UK.

In addition to the acquisition of FDC, we have seen capital inflows of c.£134million from the three pools of capital that we manage: retail (c.£31million from EIS and c.£43million from VCT), British Business Bank (c.£30million) and institutional capital (c.£30million). We are targeting further organic growth from all three pools of capital during FY24.

Summary financials

The last 12 months have been tough for many, with the technology sector being largely out of favour with investors, impacting confidence and valuations. Despite the war in Ukraine, double-digit inflation, interest rates growing almost six fold, and marked domestic liquidity reductions, it is pleasing to report continued year-on-year growth, as summarised by:

- AuM of c.£1.4billion, a c.50% increase;
- revenue of c.£26million, a c.12% increase; and
- final proposed dividend up 6.0% to 0.53 pence per share making, if approved by shareholders, 0.86 pence per share for the year, an increase of 7.5%.

Outlook

Whilst the sector that we operate in has generally seen liquidity pressures and material reductions in portfolio values, we see an opportunity during this current financial year to increase our investment activity by taking advantage of our strong, unrestricted liquidity of c.£378million across the Group. Based on our physical presence across the UK and continued improvement in both the quality and volume of investment opportunities, we have set an ambitious target of increasing capital deployment to a record level of £250million in FY24.

Since our IPO in December 2014, each year we have either met or beaten market forecasts from a trading outturn perspective. To achieve this requires an exceptional team at Mercia, as we look to deliver on our vision of being the first choice for investors, investees and employees. At the top of our list of 'value drivers' for any acquisition that we make is cultural fit, and I warmly welcome all FDC staff to Mercia, as we continue on our growth journey together underpinned by our shared values. I am sincerely grateful to the entire team at Mercia, our portfolio companies working tirelessly to fulfil their own growth aspirations, our managed fund investors, and last but by no means least, the continued belief and support of our shareholders.

Dr Mark Payton
Chief Executive Officer

Strategy

Sustained growth

We support high-growth companies across the UK with global potential, providing sustained investment to foster their growth and accelerate value creation.

Mercia 20:20: Driving sustainable growth and value for all stakeholders
With our raised ambition, Mercia 20:20, we actively seek to create value for all Mercia stakeholders – employees, investors, investee companies, shareholders and communities. Our sustainable growth strategy embodies responsible investing and employment practices, anchored in strong ESG commitment. Mercia's 'Complete Connected Capital' solution, national footprint and added-value support, uniquely positions us to meet the growing demand for capital from UK SMEs. Our targets include achieving 20% average annual AuM growth and £20.0million average pre-tax profits per annum over three years, delivering substantial shareholder returns and value for all stakeholders.

"We are an established impact investor operating from key cities across the UK, targeting ambitious founders who are seeking growth capital."

Supportive balance sheet investment
Up to £10m
Aligned with our investment strategy, our disciplined use of proprietary capital forms the core of our ambitions, allowing us to strategically invest and provide optimised returns. Our managed funds incorporate a shadow portfolio specifically designed to identify businesses seeking Series A capital and displaying potential for rapid growth. By adopting a partnership approach and integrated investment practices, we generate value for both shareholders and other investors.

Unrestricted cash

£37.8m

See page 25 for more details

Maximising value through private equity
Up to £10m
Mercia's active participation in private equity investments allows for ownership stakes in established companies. Employing a hands-on approach, we enhance operations to unlock value and achieve attractive long-term returns. Our capital investment caters to profitable businesses seeking transition, offering solutions tailored to their specific needs. From buyouts to buy-ins, cash-outs to growth capital, we work closely with regional SMEs, implementing a focused equity value-creation plan. This strategic approach empowers these businesses to achieve their full potential and capitalise on growth opportunities.

FuM

c.£48m

See page 24 for more details

Mercia's venture capital approach
£250k - £10m
Mercia, as a venture capital investor, identifies early-stage and high-growth companies. By deploying capital, expertise and guidance, we foster their development and expansion. Our primary objective is to capture the growth potential of these businesses, generating substantial returns for our investors. Through our focused strategy and comprehensive support, we empower promising SMEs to thrive and maximise their profitability, delivering significant value and long-term success.

FuM

c.£630m

See pages 23 and 24 for more details

Flexible financing solutions
£250k - £10m
Mercia specialises in providing debt financing solutions to SMEs, addressing today's macroeconomic challenges, including the lack of interest from traditional high-street lenders. Our financing solutions offer flexibility while preserving the business' ownership and control. We have specialisms in funding buyouts, replacement capital and property finance. Working alongside other funds in our 'Complete Connected Capital' model, we support ambitious teams, many of whom return for further lending, cementing our reputation as a trusted partner in their growth journey.

FuM

c.£556m

See page 25 for more details

Case study – Medherant

The challenge:
Menopause often results in a reduced sex drive in women due to declining testosterone levels. There is a notable absence of approved, women-specific testosterone replacement therapies in the UK and globally.

The solution:
Medherant, a University of Warwick spin-out, is developing the world's first testosterone patch for post-menopausal women. Supported by investment from Mercia and other investors, the company plans to start clinical trials and seek international regulatory approval. The patch provides a precise dose of testosterone and is replaced twice weekly, resolving issues of irregular dosage and transfer to other surfaces.

The impact:
Medherant's testosterone patch could transform the lives of millions of post-menopausal women globally. It will provide a targeted, consistent, and convenient testosterone replacement therapy, improving quality of life and addressing a significant healthcare concern.

The future:
With continued investment support, Medherant aims to progress their clinical trial programme for the testosterone patch and bring this innovative product to market, expanding treatment options in women's health.

FY23 net cash invested

£1.7m

Strategy in action

Sue Summers
Chief Executive Officer
Frontier Development
Capital

Frontier Development Capital joining Mercia will complement its financial services and help fuel further growth for SMEs in the UK.

Shared success

“

We're delighted to have acquired Frontier Development Capital, which represents an important strategic milestone for Mercia, as we drive towards our twin Mercia 20:20 objectives. Sue Summers and her team have built an outstanding and highly regarded UK lender, and the acquisition will bring complementary capital, capabilities and reach across the UK's regions, whilst also seeing our AuM grow to £1.4billion."

Dr Mark Payton
Chief Executive Officer,
Mercia Asset Management

“

Mercia has long been a business we've admired. Our shared passion for helping some of the UK's most exciting SMEs to thrive through supportive capital, made Mercia the natural partner of choice for us as we look to continue the growth we have experienced since launching in 2016."

Sue Summers
Chief Executive Officer,
Frontier Development Capital

This past year was an exciting period for FDC, not least because of the transaction that saw FDC become part of the Group.

Since formation in late 2016, FDC has enjoyed year-on-year success, with investor confidence growing at the same pace. Through the resilience and longstanding experience of an exceptional team, FDC delivered record results in 2021, going on to grow funds under management to c.£415million at the date of acquisition. Critically, both businesses are well-aligned, with FDC able to offer complementary capital, expertise and regional coverage across the UK. FDC offers commercial loans typically starting from £2.0million, while Mercia's existing lending range is between £250,000 and £1.0million. The combined lending team of Mercia will now consist of 41 staff, managing c.£556million of FuM, including 28, regionally-based lending specialists.

FDC has assembled loan portfolios comprising c.100 companies, primarily situated in the Midlands and the North of England. This accomplishment has been founded on several core values that both FDC and Mercia share, particularly in relation to corporate culture. This cultural compatibility will be crucial to the success of this promising new partnership that will be of strategic significance in the coming years. There is a renewed determination among businesses to persevere despite prevailing macroeconomic and geopolitical conditions, and strong regional enterprises are seeking to secure investment in anticipation of growth in 2024. Sustained support for these businesses is crucial as they remain the backbone of the UK's national economy. Offering larger cheque sizes, strong liquidity and an expanded regional footprint will greatly enhance Mercia's market offering. SMEs greatly benefit from FDC's practical and adaptable approach to debt financing and deal structuring, that has enabled them to establish meaningful and enduring relationships with clients across a variety of sectors and businesses throughout the UK.

FDC joining Mercia results in an enhanced range of financial products and services, increased market presence and sustained growth. In the first four months of the new partnership, FDC has secured a further £30.1million of new funds into the FDC Debt LP fund, which is already testimony to the benefits of this united entity. FDC and Mercia are well-positioned to capitalise on opportunities in the UK's dynamic economic landscape, ultimately contributing to the prosperity of the national economy and the success of regional SMEs.

Strategic benefits:

- **Significantly expands the Group's profitable AuM to c.1.4billion and takes the Group within reach of one of its two Mercia 20:20 goals**
- **Strengthens Mercia's position as a leading, regionally focused and proactive supporter of SMEs**
- **Collaboration between the complementary expertise and deal flow networks of both FDC's and Mercia's successful lending teams, should result in additional lending opportunities for both teams across the UK**
- **Positions the enlarged Group ready to capitalise on further organic FuM growth opportunities**
- **Acquisition is immediately earnings enhancing and supports Mercia's strategy of growing its adjusted operating profits.**

FDC investee portfolio

Engaging with our stakeholders

Dr Abbie-Lee Hollister
Inbound Marketing Manager

Mercia's vision is to be the first choice for investors, investees and employees. This vision guides our strategic growth.

Strategic interactions

The Board
Mercia's Board is committed to promoting the Group's long-term success for the benefit of its shareholders, whilst considering other stakeholders' interests, thereby meeting the requirements of section 172 of the Companies Act 2006. Through transparent and fair operations, strategic decision-making, fostering business relationships and prioritising environmental impact, we fulfill this requirement.

"Effective stakeholder engagement drives progress, fostering mutual understanding, shared objectives and ultimately, sustainable success."

- Shareholder engagement: Strengthening relationships with shareholders and consistently communicating Mercia's progress
- Employee wellbeing: Fostering work/life balance and prioritising employee health to ensure a thriving workforce
- Investor trust: Demonstrating integrity and transparency to foster trust among investors
- Investee growth: Supporting investees for regional business growth and community development
- Sustainable partnerships: Cultivating value-aligned relationships with partners and suppliers
- Community impact: Contributing to local communities through regional investment and striving for carbon neutrality

See page 14 for more details

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.

Stakeholder group	Description	Why we engage	How we engage	Examples of engagement
Employees	Crucial to our business, we focus on their development and mental wellbeing.	Fostering a supportive environment.	Mercia Heart initiative, comprehensive benefit package, counselling service, webinars, Headspace app, professional development.	The all-company Mercia Away Day in Manchester. The integration activities including a company-wide conference welcoming FDC. Mercia branded items for staff use.
Shareholders	Their relationship is crucial to us. We aim for transparency and clear understanding of our performance.	We operate with transparency and integrity, keeping them informed about our progress.	Shareholder and investor events, face-to-face meetings and video updates.	The Investor Meet Company retail investor showcase.- 'In Conversation with Mercia'. Mercia's results roadshows and retail investor evenings.
Investees	Essential to our ecosystem. Their success contributes to regional business growth.	Our regional investment initiatives contribute to business growth while supporting local communities.	Webinars, panel discussions, insight articles, interviews, commentary shared across digital channels.	Chair Summits, newsletters, Portfolio Summit, seminars, insight articles, interviews.
Partners and suppliers	Vital to our strategy. We cultivate beneficial relationships.	We recognise that our partners and suppliers are also often SME businesses, and need to be included in relevant communications and provided with transparency of our policies and processes that we strictly adhere to.	Webinars, newsletters, prompt payment, access to key information that might impact them.	Portfolio Summit, Starter for Ten newsletter.
Community	Our operations directly impact the communities in which we invest. We aim to generate demand for local services.	We recognise the need to have the support of the communities in which we are located and do business in, and fairly engage with these cohorts.	Sponsored events, clothing drive, coat collection, photography competition.	Skills Builder Partnership. Supporting charities.

Responsible investment

Key considerations during FY23 and beyond

- Increase engagement with portfolio companies on ESG issues
- Continue focus on diversity and inclusion
- Measure, monitor and communicate

“Responsible investment is central to our growth strategy and guides our behaviours.”

Progression on our pathway

In last year's report we shared our vision for ESG and at the same time demonstrated early signs of progress across all elements of our business.

We are pleased to report that in every case where an objective was set for the year, our teams did everything in their power to meet our commitment, which, set against the difficult economic backdrop, is a significant achievement.

As a UK domestic only investor focused on moving capital into regional economies, we see our own business model as purpose led and for that reason, we will continue to act as the voice for change in capital allocation debates. Our model is predicated on searching for businesses that make a difference to the world around us, whether that's having a positive impact on health or environmental matters.

Our natural gravitation towards these businesses can be traced back to some of our Group's earliest investments including:

2007 – Electro acoustic panel technology, Warwick Acoustics

2010 – Lithium battery developer, Faradion

2014 – Lightweight metal manufacturer, Impression Technologies

Responsible Investment Committee

Earlier this year we wished Jill Williams, who had played an important role in developing many of our ESG initiatives, well as she moved to a regional portfolio role.

Alice Grieve, who previously worked alongside Jill on the committee, now chairs the group, and her significant experience in portfolio engagement has ensured a smooth transition in leading the Group's ESG programme.

The committee's considerations remain the same:

- increase engagement with portfolio companies on ESG issues;
- continue focus on diversity and inclusion; and
- measure, monitor and communicate.

Last year we set out key considerations for the financial year and beyond and with each consideration we have documented our reporting baselines. These were not arbitrary targets simply to be ticked off a list, but fundamental principles that we must adopt to drive behaviours.

The ESG arena continues to be subject to rapid change which is why we have adopted monthly responsible investment committee meetings. The committee is made up of employees from across the business representing a range of business functions, seniorities and backgrounds and it is this team which helps to drive our strategy and initiatives.

We are pleased with our progress but we also recognise that we operate in an industry where much more can be done. We feel it is our responsibility to push the boundaries on what can be achieved.

Update on our EIS Impact Fund

Last year we launched our first Knowledge-intensive Impact EIS Fund which was a natural progression of our gravitation towards impactful businesses that operate in fields like Biomedicine and Clean Tech.

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:

i) in relation to our three guiding principles developed from the UN's sustainable development goals;

ii) by referencing our portfolio against the IRIS+ system (developed by the Global Impact Investing Network) for measuring, managing and optimising impact; and

iii) 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 first Knowledge-intensive Impact EIS fund raised c.£5million, with the first 10 investments having been made into a range of businesses:

Aceleron – developer of sustainable and reusable battery solutions

Axis Spine Technologies – implant systems that achieve and maintain superior spinal alignment for improved clinical outcomes

CanSense Group – delivering an accurate, non-invasive, inexpensive blood test to diagnose bowel cancer early

Corrosion Radar – global leader in remote sensing technologies and advanced analytics for smart infrastructures

Dxcover – liquid biopsy and artificial intelligence for early detection of cancers

Eventum Orthopaedics – developer of innovative sensor technology to improve outcomes for knee replacement operations

Invizius – clinical stage biotech developing second generation complementary therapies to treat inflammatory, fibrotic and autoimmune disorders

Medherant – developer of transdermal drug delivery patch

Optellum – lung health company developing products to help clinicians in the management, diagnosis and care of patients

Social Value Portal – technology platform to measure social impact against ESG frameworks

Engaging with our portfolio

With a portfolio of c.570 companies we have a very real opportunity to positively influence change. After a successful pilot scheme in 2021, this is now the second year our portfolio companies have completed ESG surveys and we were delighted with response levels which increased fivefold on the initial year.

The questionnaire is designed to assist companies in responding to ESG risks and opportunities and evaluate how these are considered as part of their operations. The survey asks portfolio companies a range of questions across key environmental, social and governance factors including relevance of those to their business, as well as their ability to influence those factors.

This initiative:

- encourages early-stage companies to map their current position and flag potential focus areas;
- produces a data set for tracking performance in influencing ESG factors within the portfolio, and changes over time; and
- enables comparison between portfolio companies and, when aggregated with the anonymised data of other venture capital portfolio companies, allows Mercia to determine how best to target its support.

Insights we have gained from the initiative this year will inform how we refine support for portfolio companies over the coming year and help shape future investment decisions.

Responsible investment continued

Environmental

Mercia is committed to investing in companies that are aware of their impact on the environment and, as part of our investment process, the risks associated with potential portfolio companies are evaluated. If during the evaluation we believe the environmental risks are too high then we will walk away from the process, regardless of the potential returns. We do not believe the risk justifies the reward when our reputation and the environment are at stake.

During our period of stewardship, we use our influence to encourage portfolio companies to adopt environmentally friendly practices, and we take an active role in connecting our management teams with organisations and individuals, that can provide support with their own pathway.

Mercia's carbon emissions

Mercia first engaged the sustainability experts, Positive Planet, in 2022 to calculate the Group's carbon emissions. Their initial analysis was an estimate based on data we provided, and during this year we have refined our data set to move away from the use of assumptions. This has included surveying staff to ascertain detailed travel, energy and personal focuses.

During the coming year we will further improve the quality and measurement of our carbon data and undertake initiatives to reduce our emissions on a per head of staff basis.

To achieve this, we have a number of 'environment first' policies:

- video conferencing – we encourage face to face meetings for office days but where we have remote work, we have a video first meeting policy;
- public transport – all team members are encouraged to use public transport where possible. Not only does this reduce the carbon emissions of private vehicles but it also provides additional time for our colleagues to relax listening to podcasts or focus on personal development reading;
- electric cars – we launched our company wide electric vehicle ("EV") leasing scheme in 2022, and 7% of staff have now moved to an EV via the scheme; and
- electric communications – we have written to shareholders confirm that, as we continue our migration to electronic communications in order to reduce our use of paper, this annual report will be the last paper copy to be automatically posted to shareholders.

Social

Mercia understands the importance of social impact both internally and across the portfolios.

We have committed to encouraging this with several initiatives in place including:

- signing up to the Investing in Women Code, a commitment to support the advancement of female entrepreneurship in the United Kingdom by improving female entrepreneurs' access to tools, resources and finance from the financial services sector;
- committing to improving diversity in our hiring practices;
- implementing new family leave policies which are inclusive of the LGBTQQIA+ community;
- actively encouraging employees to become involved in volunteering and charitable community projects through initiatives such as Mercia Spirit. This includes working with the Skills Builder Partnership where colleagues support students to build key skills and become better prepared to enter the workplace;
- engaging with outreach programmes within our regions and the investment management industry. Last year our teams were involved in several high value initiatives including Fund Her North; and
- providing a range of initiatives and benefits to enable employees to learn well, work well and live well.

Mercia's very purpose lies in addressing the imbalance of capital between London and the UK regions, a purpose borne from the frustration of seeing investment activity concentrated in London with regional businesses so often overlooked.

Whilst industry reports show there is still much work to be done with c.68% of venture capital or private equity funds invested into businesses in London, we are pleased to report that we continue to reverse that trend. In FY23, 76% of our funds invested were completed into companies outside London.

Governance

Investment process

As part of our standard investment process, we look for companies with independent and diverse boards, robust internal controls and a commitment to ethical behaviour and transparency. Management due diligence is performed as part of the investment process, feeding into the investment decision. Each investment appraisal includes a dedicated section discussing ESG specific risks and value creation opportunities, encouraging our investment teams and management teams to engage.

Encouraging best practice and value creation

By attending board meetings and engaging with management teams, Mercia encourages best practice. Examples of this over the past 12 months have been:

- working with management teams to ensure they had support during the recent banking sector issues, including strengthening their treasury policies;
- enacting our corporate KPIs, for the year to 31 March 2023, we ensured that ESG is raised regularly for all of our portfolio companies; and
- bringing portfolio CEOs together for events to network and learn from each other.

Alice Grieve
Compliance Manager and ESG Lead

Mark Baglow
Talent Development Coordinator

Diversity

"Our commitment to diversity isn't just good governance; it's a strategic imperative that strengthens our insights and decisions."

Mercia is dedicated to promoting diversity and inclusion across its operations. The Board recognises the significance of a diverse and inclusive team environment, both in terms of corporate governance and delivering value to shareholders. Our ongoing Board succession plan aims to cultivate a diverse group of individuals with varied backgrounds and perspectives. We have actively embraced initiatives such as the Investing in Women Code, demonstrating our commitment to supporting female entrepreneurship. In our hiring practices, we strive to enhance diversity in all its guises and seek to provide a true sense of belonging, irrespective of gender, race, age, sexual orientation, religious belief and neurodiversity.

Learning

"Empowering growth through training and development, Mercia invests in its team's success and fosters personal and professional progression."

Mercia is deeply committed to the training, mentoring and professional development of its team members. Feedback from employees has been listened to, leading to investment in the Kallidus learning platform. The People & Talent team work tirelessly to provide tailored courses and accessible information suitable for all stages of the learning journey. This commitment extends to all team members, from the most senior to the newest appointee. Mercia recognises the importance of empowering its team with the necessary skills and tools to advance both the goals of the Group and their personal and professional growth. With a strong focus on continuous development, Mercia ensures its team is equipped for success in a dynamic and evolving industry.

Chief Investment Officer's review

Julian Viggars
Chief Investment Officer

"Despite market challenges, our outlook remains positive."

Mercia's progress

We stand ready to navigate the ever-changing landscape, guided by our expertise and supported by our exceptional team.

Navigating challenges with strength

FY22 was a remarkable year for Mercia's portfolio companies, with record-breaking fair value movements. But as we ventured into the spring of 2022, the landscape shifted. Geo-political conflicts, inflation and rising interest rates ushered in uncertainty, casting a shadow over the public markets. Technology and high-growth companies bore the brunt, witnessing significant value decreases.

Against this backdrop, I am pleased to confirm that Mercia's portfolio companies have risen above the storm in this reporting period.

Our equity funds have realised an impressive c.£71million from 39 companies, delivering an average return of 2x. This is another excellent performance, to add to the c.£250million of realisations over the previous two years on behalf of individual and Limited Partner ("LP") investors, alongside our own balance sheet.

Investor confidence

The confidence placed in us is further evidenced by the inflow of an additional c.£134million (including £30.1million inflow to FDC) of capital to our FuM. Such inflows are only achieved when investors are pleased with our performance, and we are delighted to see their commitments extended in this manner.

Direct investments: Solid progress driven by advancing gaming portfolio

The table below lists Mercia's top 20 investments by fair value as at 31 March 2023, including the net cash invested, realisation proceeds, realised gains/(loss), fair value movements and the fully diluted equity percentage held.

	Year of first direct investment	Net investment value as at 1 April 2022 £'000	Net cash invested year to 31 March 2023 £'000	Investment realisations year to 31 March 2023 £'000	Realised gains/(loss) year to 31 March 2023 £'000	Fair value movement year to 31 March 2023 £'000	Net investment value as at 31 March 2023 £'000	Equity percentage held as at 31 March 2023 %
nDreams Ltd	2014	25,761	–	–	–	–	**25,761**	33.2
Impression Technologies Ltd	2015	10,372	4,888	–	–	–	**15,260**	65.1
Netacea Group Ltd	2022	–	3,000	–	–	8,693	**11,693**	24.1
Voxpopme Ltd	2018	10,511	625	–	–	(121)	**11,015**	16.6
Medherant Ltd	2016	8,989	1,709	–	–	236	**10,934**	38.4
VirtTrade Ltd *	2015	5,387	550	–	–	4,145	**10,082**	40.6
Warwick Acoustics Ltd	2014	6,306	1,450	–	–	1,939	**9,695**	40.3
Invincibles Studio Ltd	2015	4,600	626	–	–	3,471	**8,697**	35.5
Eyoto Group Ltd	2017	2,960	1,514	–	–	1,013	**5,487**	24.7
Ton UK Ltd **	2015	6,074	–	–	–	(692)	**5,382**	29.9
Locate Bio Ltd	2018	4,858	–	–	–	–	**4,858**	18.1
Axis Spine Technologies Ltd	2022	–	3,000	–	–	–	**3,000**	9.4
sureCore Ltd	2016	2,417	–	–	–	–	**2,417**	22.0
Nova Pangaea (Holdings) Ltd	2022	–	2,250	–	–	–	**2,250**	–
Akamis Bio Ltd ***	2015	1,780	–	–	–	–	**1,780**	1.4
Forensic Analytics Ltd	2021	1,750	–	–	–	–	**1,750**	8.2
MIP Discovery Ltd	2020	1,449	–	–	–	–	**1,449**	10.2
Pimberly Ltd	2021	1,375	–	–	–	–	**1,375**	5.7
MyHealthChecked PLC	2016	1,632	–	–	–	(663)	**969**	13.1
Uniphy Ltd	2022	–	550	–	–	–	**550**	–
Other direct investments	n/a	8,926	491	(13)	(2,642)	(4,616)	**2,146**	n/a
Intechnica Holdings Ltd	2017	14,411	–	(4,000)	1,793	(12,204)	**–**	–
Total		**119,558**	**20,653**	**(4,013)**	**(849)**	**1,201**	**136,550**	**n/a**

* Trading as Avid Games.
** Trading as Intelligent Positioning.
*** Formerly PsiOxus Therapeutics Limited, prior to a change in registered name to Akamis Bio Limited in January 2023.

As at 31 March 2023, the value of our direct investment portfolio was £136.6million (2022: £119.6million). This reflects a net £20.7million invested during the year, and a £1.2million fair value increase resulting principally from the continued growth of our mobile and digital gaming companies.

Amid the software sector's downward movement we had one successful realisation in January 2023, the sale of Intechnica Holdings, a software and technology consultancy business. Mercia's 25.5% direct holding generated £3.7million in cash proceeds, achieving an internal rate of return ("IRR") of 27% and a 1.7x multiple on its holding value.

We continue to provide support to our top 10 direct investments, with £14.4million invested during the year. Our focus on evaluating new opportunities has resulted in three new direct investments which exhibit growth potential in exciting markets.

Whilst the fair value movements overall for the year appear modest, our core companies continue to expand revenues and forge valuable partnerships, with five of our direct investments seeing fair value uplifts.

Market challenges have inevitably impacted businesses across our direct portfolio. Netacea experienced lower growth than forecast and, coupled with market revenue multiples falling, has led to a £3.5million fair value decrease (excluding the impact of the demerger from Intechnica). Intelligent Positioning and W2 Global Data Solutions both experienced similar pressures during the year. Furthermore, Edge Case Games was informed that Wargaming.net Limited has ceased work on its original game that was subject to royalty receipts, resulting in a downward fair value movement.

Chief Investment Officer's review continued

The caution from potential acquirers in purchasing relatively early-stage and often loss-making assets, has made them increasingly risk-averse. This approach had noticeable effects throughout the financial year, particularly in the last quarter when exit processes stalled and later-stage investors focused on their existing portfolios. As a result, co-investors and acquirers scaled back or withdrew from assets struggling for growth or exhibiting high cash-burn rates. One such example was the exit process for Sense Biodetection, which was ultimately sold through an accelerated process for a fraction of the initially indicated amounts, when buyers and their US funders pulled back. This disappointing outcome amounted to a £2.6million realised loss, as later-stage investors were compelled to accept a minimal stake in the ultimate acquirer, Sherlock Biosciences Inc., through a share-based deal.

Our equity performance

IRR	31 March 2023	31 March 2022
Proprietary capital	**13%**	16%

TVPI*	Venture	Private Equity	Venture	Private Equity
Institutional Funds				
Legacy	**188%**	**149%**	193%	132%
Current	**113%**	**119%**	111%	109%
Retail EIS Funds				
Legacy	**108%**	**n/a**	139%	n/a
Current	**92%**	**n/a**	96%	n/a

VCTs (pence per Ordinary share)	NAV **	Total return **	NAV	Total return
Northern Venture Trust	**62.1**	**250.6**	68.4	252.9
Northern 2 VCT	**59.0**	**195.0**	64.4	196.8
Northern 3 VCT	**91.6**	**205.0**	97.9	206.3

* TVPI % defined as; distributions + total value + cash/capital paid in.
** VCT Total return growth over 12 months, based on 31 March 2023 cumulative total return, of -0.6% to -0.9%.

We use different performance measures across our asset classes. For our direct portfolio, IRR is adopted because our proprietary capital is also used for other activities. As at 31 March 2023, the direct portfolio IRR had decreased to c.13%, with slower growth in fair values.

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 188%, are largely flat year-on-year as several assets were marked down during FY23. Our newest PE fund saw a recovery in asset values as the impact of the pandemic on its portfolio businesses receded.

For our VCTs, 'total return' includes cumulative dividends paid alongside current net asset value to give a true total performance measure. It has been principally flat year-on-year.

Our continuing strong overall investment performance enables us to raise additional inflows, with a further £30.3million allocated from additional contributions to the Northern Powerhouse Investment Fund Equity and our Midlands Engine Investment Fund Proof of Concept mandate by British Business Bank ("BBB"). Alongside this, our EIS team raised new funds totalling £31.0million, in addition to our Northern VCTs raising £40.0million, with investors re-investing £2.9million of dividends paid during the year. Since year end, a further £18.0million has been successfully raised by our Northern VCTs, together with a £5.0million additional contribution to the North East Venture Capital fund ("NEVF").

At the year end, we had c.£378million of liquidity across all our funds and balance sheet, c.£128million of which sits within FDC's debt funds.

Asset class	AuM 1 April 2022 £'m	Acquired £'m	Inflows £'m	Performance £'m	Distributions £'m	AuM 31 March 2023 £'m	Post year end inflows £'m
Venture	592	–	104	(32)	(34)	**630**	23
Private Equity	48	–	–	1	(1)	**48**	–
Debt	118	415	30	(4)	(3)	**556**	–
Total FuM	758	415	134	(35)	(38)	**1,234**	23
Proprietary Capital	201	–	–	6	(4)	**203**	–
Total AuM	**959**	**415**	**134**	**(29)**	**(42)**	**1,437**	**23**

Our managed funds as at 31 March 2023 totalled £1.2billion. During the year, we invested c.£165million into 176 businesses, including 85 new companies.

Venture

UK retail investor-focused VCT and EIS managers raised record amounts of capital in FY23 for disruptive businesses, supporting high-quality management teams. This has provided a solid foundation for entry valuations in the pre-series A space where we operate. Our EIS, regional and VCT equity funds' successful track records, supported by consistently high deployment rates and profitable exits, has resulted in c.£104million of capital inflows. During the year, EIS fundraising totalled c.£31million, with a further c.£30million allocated from our LP partners to our regional funds and c.£43million in new VCT subscriptions.

Notable realisations include robust returns from our investments in Ideagen (9.8x return) and Lineup Systems (7.5x return) from the Northern VCT portfolio, plus C7 (14.2x return) from the EIS portfolio.

The Group's overarching strategy is to make a positive impact through investment in purpose-led companies. We have an investment track record in the Life Sciences, Digital and Deep Tech sectors, aiming for a sustainable, healthier and tech-enabled future. These innovative companies are largely located in the regions outside of London.

Private equity

Tough economic times have presented a challenging terrain for lower mid-market, regional PE investors. This has impacted deal volumes and raised entry valuations as mid-market PE firms have been bidding on substantially smaller deals. We have focused on improving performance within our portfolios, yielding significant results with the total fair value growing by 33%, alongside the exit of D&P Group from one of our legacy funds, giving an overall 3x return on the portfolio.

Debt

Leveraging a variety of government-backed schemes and privately raised funds, we are a go-to lender in the regional SME debt market. Our recent acquisition of FDC in the Midlands has extended our services to enable us to offer higher loan values of up to £10million, which were previously capped at £1million.

With a strong performance, Mercia's Debt funds completed 82 deals, resulting in a c.154% increase in the total amount invested to £34.1million (2022: £13.4million). As a highly agile and flexible lender, our expansion has further demonstrated our ability to meet the evolving needs of SMEs.

Post period events

Post year end, £4.2million has been invested into Voxpopme, Eyoto, Netacea, Impression Technologies and TON UK t/a Intelligent Positioning.

Chief Investment Officer's review continued

Summary and look forward

In the current year, I have encouraged our investment staff to be bold and unwavering in their support of teams and assets we believe in. We have leveraged the expertise of our Mercia Nucleus network to provide experienced advice to these entrepreneurial teams. At the same time, we have made conscious decisions to allocate capital only to those whose models remain differentiated and aligned with our investment strategy.

Over the past three extraordinary years, we have generated significant realisations, surpassing £320million. This accomplishment not only solidifies our business model and investment expertise, but also enhances our resilience as a proactive specialist asset manager. By carefully selecting assets across sectors, we have avoided overreliance on those specific tech sectors that faced challenges during this period.

While our path to achieving Mercia 20:20 may not be a straight line across the three years, our portfolios are well-run and contain incredibly promising assets. I am confident that we are excellently positioned to deliver significant value over the medium term. I would like to thank all the team members of #OneMercia who have shown unwavering dedication throughout another challenging year. They are the driving force behind our achievements, and I am very grateful for their continued commitment to our shared vision.

Mercia's journey is marked by strength, resilience and a commitment to excellence. Despite the challenges faced, we have emerged with solid performance, robust investments and an optimistic outlook. We stand ready to navigate the ever-changing landscape, guided by our expertise and supported by our exceptional team. Together, we will continue to unlock value for our shareholders, investors and investees.

Julian Viggars
Chief Investment Officer

Our portfolio

Peter Dines
Managing Director,
Mercia Ventures

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

Complete capital

National venture

National EIS & VCT funds driving regional successes
The strength of Mercia's national reach lies in the combined quantum of c.£421million that Mercia manages and equally, in our successful exit track record. Our legacy of success from which these Mercia funds draw their credibility is underpinned by two simple proof points: our record fundraising this year and our speed of deployment.

This financial year witnessed ongoing realisations across Mercia's EIS and Northern VCT funds. Two exits from the Northern VCT portfolios are particularly noteworthy. Ideagen, a software company based in Nottingham, was successfully sold in July 2022 yielding a 9.8x return. This was followed by the exit of Lineup Systems in March, generating a 7.5x return.

For our EIS portfolio, the exit of C7 in July 2022 yielded an impressive 14.2x money multiple, demonstrating an industry-leading return for Mercia's EIS investors.

We maintain considerable pipeline strength, particularly within the Life Sciences and Digital sectors. The Group's overarching strategy is to make a positive impact through investment in purpose-led companies. The companies we are helping to nurture from world-leading research will ensure that our role as venture builders contributes to a sustainable, healthier and tech-enabled future.

"We are dedicated to identifying the most promising teams and successfully scaling businesses that will contribute to a sustainable, healthier and tech-enabled future."

Our portfolio continued

Will Clark
Managing Director,
Mercia Ventures

Regional venture

The effects of public market pricing and the retrenchment of global investors have impacted early-stage venture-backed businesses. They continue to navigate supply chain disruptions, while others adapt their offerings to accommodate changes in customer and employee behaviours. Talent management remains a hurdle for budding tech players across the UK, as teams devise innovative solutions to the 'enterprise brain drain'. This involves global companies offering higher salaries for home-based workers with specific skillsets, potentially slowing the growth rate within even the most promising early-stage technology ventures.

This environment has tempered the confidence of many Series A venture capital firms, especially in the US, leading to a more cautious risk appetite and extended fundraising cycles. In response, we've encouraged our portfolio to explore alternative fundraising strategies, supplementing rounds with EIS or VCT funding from Mercia, or utilising follow-on capital with the support of BBB.

Over the year, our venture funds invested £31.3million into 56 businesses (2022: £26.3million and 48 businesses). Investment highlights include £2.0million into Middlesbrough-based e-commerce business Salesfire and follow-on investments such as £1.1million into Ilkley-based Eventum Orthopaedics and £1.0million into Nova Pangaea, alongside Mercia's proprietary capital. These transactions align with our strategy of putting larger cheques to work in the very best regionally based, early-stage businesses.

FY23 saw 20 regional venture realisations with an average multiple of c.2x, generating proceeds of c.£25million for our managed funds.

Our Limited Partners' confidence in Mercia remains robust.

Wayne Thomas
Managing Director,
Mercia Private Equity Funds

Private equity

The past 12 months have presented a challenging terrain for lower mid-market, regional private equity investors. Economic turbulence has impacted deal volumes, intensifying competition as investors vie for deals across tiers. PE funds traditionally associated with mid-market transactions have been bidding on substantially smaller deals, inflating valuations beyond our acceptable transaction levels. Against this backdrop, we have concentrated on enhancing the performance of our existing portfolio, which has notably borne fruit in the form of substantial growth.

Our investment strategy is rooted in strong regional networks, robust industry expertise and the ability to identify undervalued growth opportunities. As a sector-agnostic fund, we invest in traditional businesses in need of professionalisation, complemented by investments in people and technology, to drive efficiencies and create value for our management teams and investors.

Our extensive experience investing in regional SMEs underscores the fact that businesses need more than mere capital to unlock growth and value. They require strategic input and a patient, long-term management approach – principles that are fundamental to Mercia's investment ethos and have once again been evidenced during this financial year.

Across our PE funds, we have experienced a c.33% growth in the total value of our portfolios. This attests to the resilience of our management teams and our ability to capitalise on emerging commercial opportunities.

During this period, the sale of D&P Group facilitated the closure of the Coalfields Growth Fund, resulting in an overall fund return of 3x. Following the year end, we announced completion of the sale of Manchester-based ParkVia to a division of Manchester Airport Group. As a digital parking business, ParkVia was the first to feel the pandemic's impact due to its airport parking connection. However, we are pleased with the operational response from the business, which has shown significant growth by adapting its model.

As anticipated in our investment cycle, our future fundraising discussions are now in progress and I look forward to providing further updates upon conclusion.

Paul Taberner
Managing Director, Mercia Debt Funds

Debt

As the direct consequences of the global pandemic subsided entering 2022, businesses across the UK continued to suffer its after effects, grappling with high debt levels, constricted cash flows and unparalleled supply chain disruptions.

These repercussions that have reverberated through both the SME market and larger corporations, have been further compounded as traditional banking lenders continue to consolidate their centralised models with the ongoing closures of high street branches and aversion to risk.

Mercia Debt Funds have long been instrumental in filling the funding gap facing so many viable SMEs across the UK. This past financial year, Mercia has once again proven it is well-positioned to back companies demonstrating strong financial controls and unwavering determination to regain growth.

This blend of economic challenges and Mercia's unique standing in the market has fueled a robust financial performance for our Debt Funds. The Debt team completed 82 deals (2022: 63 deals), with total lending up by c.154% to £34.1million (2022: £13.4million). This lending growth is a direct consequence of our adaptability and holistic approach to lending decisions, relying on personal insight and market experience rather than restrictive algorithms.

The UK's regional SME market demands remain consistent across economic cycles, necessitating agility and flexibility from lenders. Mercia's ability to act swiftly, leveraging a variety of government-backed schemes and privately raised funds, solidifies our position as one of the leading go-to lenders in the regional debt market.

Our recent acquisition of FDC in the Midlands has expedited this goal, extending our services to higher loan values of up to £10million, which were previously capped at £1million. With our fund range now encompassing the entire debt market, from £250,000 to £10million, we are optimistic that the year ahead will yield increased activity and returns for our private capital debt funds and public sector partners.

Angela Warner
Managing Director, Mercia Investments

Direct investments

Both financial markets and the broader UK landscape have faced daunting challenges. Private company valuations inevitably reacted to public market fluctuations. Mercia's Direct Investment portfolio has not been entirely insulated, primarily seen through decelerated revenue growth as customers' budgets tighten and spending patterns undergo stringent scrutiny.

One sector that continues to display a growth trajectory is our mobile gaming sector. The most substantial fair value increases were £4.1million for Avid Games and £3.5million for Invincibles Studio. Avid Games saw a revenue boost driven by encouraging user-acquisition metrics. Invincibles Studio launched their latest proprietary game in September 2022, recording a 30% revenue rise, a remarkable feat amidst globally depressed gaming advertising revenues.

Our largest investment, Farnborough-based nDreams has grown its revenues by 60% in FY23, moving into profitable trading, with a healthy number of projects signed so far.

In our Deep Tech sectors, Warwick Acoustics and Impression Technologies continue to make strong progress. Warwick Acoustics successfully demonstrated its electrostatic acoustic panel technology in premium marque vehicles for globally recognised car brands, securing two more automotive original equipment manufacturers for proof of concept projects. Impression Technologies secured its first aerospace licence and showcased its capability to produce battery boxes for electric vehicles incorporating recycled aluminium in its HFQ® pressing process.

Our Life Sciences portfolio continues to exhibit steady progress. Medherant has furthered the development of its testosterone patch in tandem with a key partner programme, Locate Bio pre-clinical trials have shown promising results and MIP Discovery has met its technical and commercial milestones with its synthetic antibodies. Additionally, Eyoto has received European clearance for its slit lamp product while progressing Food and Drug Administration clearance procedures in the US and drawing in orders for its products.

We are pleased to have three new companies in our portfolio: Uniphy, a Deep Tech business transforming surfaces into a smart human-machine interface; Axis Spine, a Med Tech firm delivering spinal implants; and Nova Pangaea, a Clean Tech business dedicated to producing biofuels and biochar to address urgent climate concerns.

Chief Financial Officer's review

Martin Glanfield
Chief Financial Officer

"These results demonstrate Mercia's robust business fundamentals, during a year of significant market and economic instability."

Continued growth

Despite a challenging year for the specialist asset management sector, and venture capital in particular, Mercia has remained profitable, operating cash flow generative and debt free.

2023 Highlights

£25.9m
Revenue
2022: £23.2m

£2.4m
Profit before taxation
2022: £27.4m

£3.0m
Cash generated from operating activities
2022: £9.2m

£37.8m
Cash*
2022: £61.3m

£202.9m
Net assets
2022: £200.6m

45.4p
Net assets per share
2022: 45.6p

* Including short-term liquidity investments

Overall financial performance

From a fund management profitability perspective, Mercia was able to maintain its first-half momentum in the second half of the financial year, which was supplemented by the first four months' profitable contribution from FDC, which was acquired on 5 December 2022.

Whilst the Group's direct investment portfolio performance against a challenging market backdrop was satisfactory overall, one material full-cash exit was achieved and the Group finished the year in a strong liquidity position, with no debt.

Acquisition of Frontier Development Capital Limited

Mercia acquired the entire issued share capital of the central-Birmingham headquartered FDC on 5 December 2022, for a total consideration of up to £9.5million plus net cash of £1.5million.

This strategic acquisition was for an initial consideration of £5.5million, satisfied in cash and funded from Mercia's own liquid resources. In addition, deferred consideration of up to £4.0million in cash will be payable, contingent upon the achievement of future revenue and net new institutional third-party fundraising targets, for the two years to 30 November 2024.

The acquisition is earnings enhancing and in the post-acquisition trading period to 31 March 2023, FDC has performed in line with the Group's expectations. Further details of the transaction are shown in note 14 to the consolidated financial statements.

Proposed final dividend

The Board adopted Mercia's progressive dividend policy in December 2020, and since then has announced interim dividends of 0.10 pence per share in December 2020 and 0.30 pence per share in December 2021. Shareholders also approved a maiden final dividend of 0.30 pence per share in September 2021 and 0.50 pence per share in September 2022.

Given the Group's twin sources of profitability and cash inflow, being regionally focused, proactive specialist asset management, plus direct investment and periodic cash realisations, the Group's dividend policy does not need to be anchored to one or other source of liquidity, hence the Board's intention to grow the total dividend year-on-year.

The continuing positive overall Group performance, coupled with its future prospects, enables Mercia's Board to recommend a proposed final dividend of 0.53 pence per share. If approved by shareholders at the Annual General Meeting in September 2023, the total dividend for the year will be 0.86 pence per share (2022: 0.80 pence per share), a 7.5% total year-on-year increase.

If approved by shareholders, the final dividend will be paid on 27 October 2023 to shareholders on the register at close of business on 29 September 2023, with the total dividend payable being £2,367,000 (2022: £2,201,000).

Adjusted operating profit

The Directors believe that the reporting of adjusted operating profit assists in providing a consistent measure of operating performance for businesses such as Mercia and is an important alternative performance measure ("APM") of interest to shareholders.

Adjusted operating profit is defined as operating profit before net exceptional performance fees, depreciation, realised gains/(losses) on the sale of direct investments, fair value movements in direct investments, share-based payments charge, 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 2023 £'000	Year ended 31 March 2022 £'000
Revenue	**25,881**	20,576
Administrative expenses	**(20,692)**	(16,618)
Net finance income	**2,397**	4,437
Adjusted operating profit	**7,586**	8,395
Net exceptional performance fees	**-**	1,592
Depreciation	**(309)**	(224)
Net finance income	**(2,397)**	(4,437)
Realised (loss)/gains on sale of direct investments	**(849)**	9,878
Fair value movements in direct investments	**1,201**	11,385
Share-based payments charge	**(1,049)**	(1,109)
Amortisation of intangible assets	**(2,337)**	(2,033)
Movement in fair value of deferred consideration	**(1,462)**	(522)
Operating profit before exceptional item	**384**	22,925
Exceptional item	**(372)**	–
Operating profit	**12**	22,925
Net finance income	**2,397**	4,437
Profit before taxation	**2,409**	27,362
Taxation	**427**	(1,262)
Profit and total comprehensive income	**2,836**	26,100

Chief Financial Officer's review continued

A reconciliation of these results prepared in accordance with International Financial Reporting Standards ("IFRS") to those presented on an APM basis are as follows:

	Year ended 31 March 2023			
	IFRS as reported £'000	Performance fees £'000	Depreciation £'000	APM basis[1] £'000
Revenue	**25,881**	**–**	**–**	**25,881**
Administrative expenses	**(21,001)**	**–**	**309**	**(20,692)**
Depreciation	**–**	**–**	**(309)**	**(309)**

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

Revenue
Total revenue increased 11.6% to £25,881,000 (2022: £23,183,000) and comprised fund management related fees, initial management and arrangement fees from investment rounds, investment director monitoring fees, sundry business services income and VCT share offer fees. Excluding the four-month revenue contribution from FDC, the VCT share offer fees received in the year and the exceptional performance fee revenue received in the prior year, the like-for-like increase was 11.1%.

Administrative expenses
Total administrative expenses increased 17.6% to £21,001,000 (2022: £17,857,000) and comprised predominantly staff-related, office, marketing, cyber security and professional adviser costs. Excluding the impact of FDC's staff and administrative expenses, VCT share offer-related costs incurred in the year and the staff bonuses paid in the prior year in respect of the exceptional performance fee revenue, the like-for-like increase was 10.0%.

Net finance income
Total gross finance income of £2,428,000 (2022: £4,452,000) arose primarily from crystallised loan interest and redemption premiums received on convertible loans within the direct investment portfolio. Gross finance income also includes £449,000 (2022: £14,000) of interest received on cash deposits, following Bank of England base rate rises during the year.

Finance costs of £31,000 (2022: £15,000) comprised interest payable on office leases and the Group's staff electric car scheme.

Realised gains/(loss) on sale of direct investments
During the year, a realised gain of £1,793,000 (2022: £9,878,000) arose on the disposal of Mercia's direct investment in Intechnica Holdings. Total cash proceeds of £3,731,000 were received upon completion, with a further £269,000 released from escrow held by a third party in May 2023, following finalisation of the completion accounts. A gain of £2,000 also arose on the disposal of the Group's equity holding in Ventive.

In January 2023, the Group realised a loss of £2,644,000 on the disposal of its direct investment in Sense Biodetection, further details of which are given in Julian Viggars' CIO review on page 18.

Fair value movements in direct investments

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of direct investments*	**11,324**	15,122
Unrealised losses on the revaluation of direct investments*	**(10,123)**	(3,737)
Net fair value movements	**1,201**	11,385

* Excluding the demerger of Netacea Limited from Intechnica Holdings Limited during the year.

Net fair value movements during the year totalled £1,201,000 (2022: £11,385,000) and as at 31 March 2023, the fair value of the Group's direct investment portfolio was £136,550,000 (2022: £119,558,000).

For the year as a whole, and excluding the impact of the Netacea and Intechnica demerger, unrealised fair value gains arose in five (2022: 10) of the Group's direct investments. The largest fair value gain was in respect of VirtTrade, which accounted for £4,145,000 of the total (2022: £6,734,000 fair value gain in respect of nDreams).

There were six (2022: three) fair value decreases, the largest being £3,511,000 which arose in respect of Netacea Group (2022: £2,856,000 fair value decrease in MyHealthChecked PLC).

Share-based payments charge

The £1,049,000 non-cash charge (2022: £1,109,000) arises from the issued share options held by all employees throughout the Group, ranging from 28 January 2020 to 31 March 2023.

Amortisation of intangible assets

The amortisation charge for the year of £2,337,000 (2022: £2,033,000) represents amortisation of the intangible assets recognised on both the recent acquisition of FDC, and the VCT fund management contracts in 2019.

Movement in fair value of deferred consideration

FDC's total purchase price includes £4,000,000 of contingent deferred consideration, which is subject to a number of targets being met in the two-year period to 30 November 2024. Movement in the fair value of contingent consideration from 5 December 2022 to 31 March 2023 has resulted in a charge to the income statement of £131,000.

The VCT fund management contracts' total purchase price included 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 December 2019. A charge to the income statement of £1,331,000 (2022: £522,000) represents the unwinding of the discount on the final deferred consideration payment settled in cash in December 2022, and new Mercia Asset Management PLC Ordinary shares issued in January 2023.

Exceptional item

The exceptional item for the year ended 31 March 2023 relates to professional fees incurred in respect of the acquisition of FDC in December 2022.

Taxation

The components of the Group's tax charge are shown in note 11 to the consolidated financial statements.

Profit and total comprehensive income for the year

The adjusted operating profit, net realised loss on the sale of direct investments and net fair value increase, all contributed to a consolidated total profit and comprehensive income of £2,836,000 (2022: £26,100,000). This has resulted in basic earnings per Ordinary share of 0.64 pence (2022: 5.93 pence).

Summarised statement of financial position

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Goodwill and intangible assets	**39,051**	32,355
Direct investment portfolio	**136,550**	119,558
Other non-current assets, trade and other receivables	**4,751**	1,604
Cash and short-term liquidity investments	**37,834**	61,284
Total assets	**218,186**	214,801
Trade, other payables and lease liabilities	**(7,720)**	(7,415)
Deferred consideration	**(3,005)**	(2,869)
Deferred taxation	**(4,540)**	(3,928)
Total liabilities	**(15,265)**	(14,212)
Net assets	**202,921**	200,589
Net assets per share (pence) **	**45.4p**	45.6p

** In settlement of the final deferred consideration liability in respect of the VCT fund management business acquired in 2019, 6,471,495 Mercia Asset Management PLC Ordinary shares were admitted to trading on the AIM Market of the London Stock Exchange on 31 January 2023. Subsequent to this, 446,581,202 Ordinary shares were in issue and therefore used as the denominator for calculating net assets per share as at 31 March 2023. 440,109,707 Ordinary shares were in issue as at 31 March 2022.

Chief Financial Officer's review continued

Intangible assets
Details of the Group's intangible assets, including the intangible asset recognised following the acquisition of FDC, are shown in notes 15 and 16 to the consolidated financial statements.

Direct investment portfolio
During the year under review, Mercia's direct investment portfolio grew from £119,558,000 as at 1 April 2022 (2022: £96,220,000 as at 1 April 2021) to £136,550,000 as at 31 March 2023 (2022: £119,558,000), a c.14% increase notwithstanding the sale of Intechnica Holdings during the year (2022: c.24% increase).

The Group invested £20,653,000 net (2022: £18,384,000) into 10 existing and three new direct investments (2022: 14 and two respectively), with the top 20 direct investments representing 98.4% of the total direct investment portfolio by value (2022: 98.6%).

Further detail on the fair value movements of individual direct portfolio companies can be seen in Julian Viggars' CIO review on page 18.

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 £37,834,000 (2022: £61,284,000), comprising cash of £37,555,000 (2022: £56,049,000) and short-term liquidity investments of £279,000 (2022: £5,235,000).

The Group continues to have limited working capital needs due to the nature of its business and generated operating cash inflow of £3,019,000 (2022: £9,150,000 inflow).

The overriding priorities of the Group's treasury policy remains firstly the preservation of its shareholders' cash for investment, corporate and working capital purposes, secondly timely availability and finally yield. As at 31 March 2023, the Group's cash and short-term liquidity investments were spread across four leading United Kingdom banks.

Notwithstanding the Group's overarching treasury priority, namely preservation, the Board has recently approved a measured focus on yield in the current year.

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Opening cash and short-term liquidity investments	**61,284**	54,725
Cash generated from operating activities	**3,019**	9,150
Corporation tax paid	**(1,819)**	-
Net cash (used in)/generated from direct investment activities	**(14,930)**	2,363
Acquisition of Frontier Development Capital Limited	**(6,951)**	-
Cash acquired with Frontier Development Capital Limited	**2,882**	-
Purchase of VCT fund management contracts (deferred consideration)	**(2,100)**	(2,100)
Cash inflow/(outflow) from other investing activities	**371**	(62)
Net cash used in financing activities	**(3,922)**	(2,792)
Closing cash and short-term liquidity investments	**37,834**	61,284

Outlook
Despite a challenging year for the specialist asset management sector, and venture capital in particular, Mercia has remained profitable, operating cash flow generative and debt free, and as a result is able to continue to support and maximise value from its direct investment portfolio uninhibited by any liquidity constraints.

Mercia's third acquisition since its IPO in December 2014, FDC, has been integrated into the Group and is performing well, having already secured £30.1million of additional funds to manage, in the short post-acquisition period to 31 March 2023.

Overall therefore, these results demonstrate Mercia's robust business fundamentals, during a year of significant market and economic instability. In financial terms, Mercia's focus for the current financial year is centred on organic growth in its funds under management and continued disciplined support for its direct investment portfolio.

Martin Glanfield
Chief Financial Officer

Principal risks and uncertainties

Rosie Bhattacharjee
Compliance Director

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

Risk management

The Board considers that the principal risks and uncertainties detailed in this Annual Report represent the current key potential obstacles to achieving the Group's strategic objectives. They form part of 45 (2022: 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.

Mercia's risk dashboard is drawn from the overall 'net' risk score of each risk. New risks added or 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 period's dashboard.

See page 32 for the Dashboard

Principal risks and uncertainties continued

Mercia's Risk Dashboards as at 31 March 2023 and 31 March 2022

Definitions

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 risks such as staff retention, *and compliance risks* such as financial crime and reputational risks arising therefrom.

External risks
include cyber, regulatory, competitor, legal, force majeure, long-term geopolitical and economic risks and inflationary pressures.

Internal risks
include the successful execution of the Group's strategy and adequate management of conflicts of interest.

Dashboards 31 March 2023

External

Internal

Dashboards 31 March 2022

External

Internal

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

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, should they materialise. 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 management 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 remained a strong focus given Russia's ongoing war in Ukraine, and we are continuing to monitor associated risks such as investee company supply chain risk and financial risks associated with the current elevated interest rate environment and high inflation. The Group's cautious treasury policy recently proved its worth during the venture capital industry crisis involving Silicon Valley Bank. We have also maintained a high focus on risks such as cyber crime, given the increased potential for cyber attacks and continue to invest heavily in cyber defence and detection software tools.

The risks associated with the COVID-19 pandemic have significantly subsided during last financial year as incidence levels and severity of infection have reduced. Staff welfare has continued to be of paramount importance and we offer a range of tools to help staff with their mental wellbeing. We have embraced a '3 + 2' flexible approach 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, weekly informative communications etc., whilst closely monitoring and supporting their funding requirements and helping to source additional management, non-executive and venture partner expertise, where needed, through our 'Mercia Nucleus' network. Our significant available pools of capital across all of our asset classes form a vital part of our investee company risk mitigation approach at times such as this, both in terms of preserving value and by being able to continue supporting our most exciting investee companies.

We have built an effective recruitment and talent-management network 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. During the year we have implemented the new financial rules under MIFIDPRU, for relevant regulated entities and we have developed our Internal Capital Adequacy and Risk Assessment process ("ICARA"), which we have undertaken on a group basis, whilst maintaining separate regulated entity wind down plans, where required for regulated entities subject to MIFID. We have included FDC in our consolidation group for the purposes of regulated returns and will include FDC in our ICARA analysis in the future. We have also implemented the required rule changes for the promotion of higher risk funds outlined by the Financial Conduct Authority ("FCA") in its Policy Statement in August 2022, to strengthen risk warnings and the "appropriateness" test for non-advised investors. We are on course with our implementation of the FCA's new Consumer Duty principles, outcomes and detailed rules, including working with our distribution partners, in respect of our EIS and VCT products and investors. Furthermore, we have maintained a Remuneration Code in compliance with the FCA requirements.

We continue to monitor the risk of failure to fully embrace the ESG agenda as set out on page 14. We continue to focus on climate change and have again assessed our carbon footprint and the measures possible to reduce it, with the objective of reaching 'net-zero'. We have once again offset our footprint to be 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 and/or Board when appropriate.

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

Rosie Bhattacharjee
Compliance Director

Principal risks and uncertainties continued

Risk	Possible consequences	Mitigation
High inflation puts increased pressure on the cost bases of both portfolio companies and Mercia, principally salaries 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.	Mercia's portfolio companies are generally well led and well funded, with proportionally modest cost bases and are therefore relatively resilient to short-term inflationary 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. The market has been very tight for experienced investment professionals and following a benchmarking exercise, the Group has responded by ensuring that all staff employment packages are competitive.
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, systems downtime, 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 in enabling continuity via remote working. 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 staffs' 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. As part of our due diligence in respect of the acquisition of Frontier Development Capital we carried out a review of and tested their digital security environment and have implemented appropriate enhancements.
The continuing risk of illness affecting key 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.**	Staff welfare issues, due to direct illness, family illness and/or bereavement. Potential mental health impacts, due to a range of factors including isolation and/or a lack of available support from friends and family. Resultant impact on the individual and 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.	Staff welfare is kept high on the agenda of the Executives with morale being maintained using communication tools such as Zoom and Slack for meetings, social interaction and to support information sharing. Staff are offered free counselling for any mental health issues arising. Mercia has recognised the impact of staff balancing work and childcare 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 a policy of three days in the office each week for all operational staff. Investment staff are once again having face-to-face meetings and attending investee board meetings, investment conferences and networking events in person. Mercia's existing investment in IT systems and connectivity allows staff to seamlessly work remotely and for operational activities to continue.

Risk	Possible consequences	Mitigation
Potential impact on portfolio companies individually, leading to failures and loss of revenues and shareholder value as a consequence.	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 and the general advantages of collaborative office environments.	Portfolio valuations have remained under regular review and fair values amended where appropriate. 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' non-executive director network to strengthen boards and increase resilience during these difficult economic conditions. In general, investee company valuation multiples are continuing to stabilise at 'new norm' levels and asset price linked revenues have also stabilised as a result.
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'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 also depends on its network of deal flow introducers to the managed fund business.	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 and/or Senior Executives periodically undertake external benchmarking reviews, the most recent being in spring 2023, to monitor and adjust, where appropriate, the Group's overall remuneration, to remain competitive. Staff welfare remains a high priority and our teams have risen to the challenges presented to them during the past three years, 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 of new staff. Performance management systems are in place to monitor progress against objectives and development milestones, as well as the Group's 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 managerial development 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. 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 appropriate to do so. Mercia has grown a strong pool of talent, reducing the overall impact of any single leaver.

Principal risks and uncertainties continued

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 by HMRC 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 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 monitors 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. Ongoing monitoring of all VCT investments occurs to ensure no investment breaches the qualifying criteria, nor any VCT as a whole. 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, that advanced assurance clearance has been obtained from HMRC where necessary and that the required final investment approvals have been obtained.
Mercia subsidiaries may cease to be authorised by the FCA, resulting in them being unable to continue their 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, 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 its quantum of FuM. The Board receives regular reports from the Group's Compliance Director as to regulatory developments and any possible impact on the Group, including any new regulatory requirements. The Group also ensures that it employs the resources 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 its FuM and underlying fund investors. The Group 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 other required 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.

Risk	Possible consequences	Mitigation
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.	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, maintained and documented, prior to any new appointments.	The Group has appointed an external custodian, Mainspring Fund Services. Prior to appointment, detailed due diligence was undertaken from both a commercial and a regulatory perspective and the 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 the Group's external auditors who review our arrangements. We undertake an annual due diligence exercise, including a site visit, to maintain oversight of the custodian, in addition to regular two-way contact between key team members.
The Group now has £1.2billion 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 win 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 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 interest or 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 recently been awarded under 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, individual investors, 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 or asset class. 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, two such meetings were held, led by the Non-executive Chair of the Audit Committee, to provide independent oversight of proposed investment decisions 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 inherently elevated risks including technical, commercial, liquidity and valuation risks. Typically, such companies are developing new or disrupting existing technologies and breaking new ground commercially.	Early-stage technology companies may not be able to attract and retain appropriately skilled and experienced staff, especially in high inflation economic conditions. 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. Changing market valuation multiples or access to third-party funding may adversely impact period end fair values and ultimate exit proceeds.	With the exception of Forensic Analytics, all 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 monitoring reduces, although does not eliminate, the risk of direct investment failure, particularly in the current volatile macro-economic and geopolitical climate. The strength of the Group's financial position means that we have been able to provide 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, notwithstanding near-term market-based changes in fair 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 and if, as a result, their fair 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 54.7% (2022: 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. The current portfolio continues to be well balanced. Concentration risk is further mitigated by the increased resources available to assess and monitor the direct investments and by the fact that the overall portfolio is maturing. The balance sheet is an evergreen investment vehicle and can support investees 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 closure of the Northern VCT's fund raise, additional 'top-up' fund allocations and the continuing completion of approved direct investments, there have been no other material events since the balance sheet date.

Approval

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

Dr Mark Payton
Chief Executive Officer
3 July 2023

Board of Directors

Right skills, right experience, right people

Committees membership • Audit & Risk ● Remuneration ● Nomination ○ Committee Chair

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. As well as his CFO responsibilities, Martin also chairs Mercia's two lending subsidiaries. He has an honours degree in business from Aston University and has recently passed the FT Non-executive Director Diploma.

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 OBE
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 has over 30 years experience advising businesses of all types and sizes on their growth activities. He also has deep corporate governance experience, both as a legal adviser to listed businesses and as a current and previous non-executive board member of public and private companies, and leading sports organisations.

Ian was Chair of Commonwealth Games England and a director of the Board of the Organising Committee of the Birmingham 2022 Commonwealth Games, stepping down from these roles after last year's very successful Games.

In October 2022, Ian became a non-executive director of Swing Fitness Limited, a technology start up providing high quality gym equipment to communities in a simple and accessible way. Ian has an MA in law from Cambridge University. He became Mercia's Non-executive Chair on 2 July 2019.

Board composition

Tenure

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

Gender

Male Members	6
Female Members	2

Diane Seymour-Williams
Senior Independent Director

Date of appointment
November 2020

Experience
Diane has non-executive experience across the quoted and asset management, global equity, private equity, investment services and VCT sectors. She is currently a non-executive director of Abrdn Private Equity Opportunities Trust plc, PraxisIFM Group Ltd and SEI Investments (Europe) Ltd and a member of the Valuation Committee of Chrysalis Investments Ltd. Diane was the co-founder of Acorn Capital Advisers Ltd and previously Diane was also a non-executive director and Remuneration Committee Chair of Brooks Macdonald Group Plc. 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 has an MA in economics from Cambridge University and with a longstanding interest in sustainable investing, she also completed Cambridge University's Sustainable Finance course.

She is a pro-bono Investment Committee member 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. In 2014, at the time of the Group's IPO, Ray was appointed Non-executive Chair 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 in roles of CFO and COO. More latterly as CEO at Datanomic Ltd, were he oversaw a twenty-fold increase in the company's global customer base and compound revenue growth over a four-year period, before being purchased by Oracle Inc (NYSE – ORCL) in 2011.

Since leaving Oracle in 2012, Jonathan has founded his own early-stage technology investment vehicle, Thorium Technology Investors, and currently sits on the boards of a number of young technology businesses.

Jonathan has a degree in zoology with marine zoology from the University of Wales, Bangor and a PhD in cell proliferation from the University of East Anglia.

Caroline Plumb OBE
Non-executive Director

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 Gravita in February 2022. 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.

Independence

Executive	
Members	3
Non-executive	
Members	5

Meetings
Attendance (Total 8)

Executive	
Dr Mark Payton	8
Martin Glanfield	8
Julian Viggars	8

Non-executive	
Ian Metcalfe OBE	7
Ray Chamberlain	8
Dr Jonathan Pell	7
Caroline Plumb OBE	7
Diane Seymour-Williams	8

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 2023.

Results and dividends

The profit for the year was £7,836,000 (2022: £26,100,000). An interim dividend of 0.33 pence per share was paid on 4 January 2023 at a cost of £1,452,000 (2022: 0.30 pence per share at a cost of £1,320,000). In accordance with the progressive dividend policy adopted by the Board, the Directors recommend the payment of a final dividend of 0.53 pence per share for the year ended 31 March 2023 (2022: 0.50 pence per share). If approved by shareholders at the Annual General Meeting ("AGM"), the final dividend will be paid on 27 October 2023 to shareholders on the register on 29 September 2023.

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 39, 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 OBE
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 55.

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.

No trading in financial instruments has been undertaken during the year under review. The Group therefore faces few risks associated with financial instruments. The Group's use of financial instruments is discussed further, in note 30 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2023, 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	14.1
Forward Innovation Fund[1]	39,272,336	8.9
Ruffer LLP	30,750,000	6.8
Forward Nominees Limited[1]	21,801,208	5.0
Blackrock	21,460,000	4.8
Chelverton Asset Management	20,000,000	4.5
Columbia Threadneedle	18,055,110	4.0
Fidelity International	17,998,709	4.0
GPIM	15,047,233	3.4
NVM Private Equity LLP	14,240,579	3.2
The Hargreaves No 11 Settlement	14,000,000	3.1

1 Shareholdings connected to Ray Chamberlain.

Political donations

During the year ended 31 March 2023, the Group made no political donations (2022: £nil).

Employees

The Group employed an average of 116 (2022: 108) staff throughout the year and is therefore of a size where it is not necessary to have introduced a formal employee consultation process. However, employees are encouraged to be involved in decision-making processes and are provided with information on the financial and economic factors affecting the Group's performance through regular team meetings, updates from the CEO and via an open and inclusive culture. Talent management, encompassing recruitment, retention, communication, training and performance management and employee well-being, 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 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 have 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:

S Williams

Sarah-Louise Williams
Company Secretary
3 July 2023

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

Sarah-Louise Williams
Group General Counsel & Company Secretary

Date of appointment

July 2020

Experience

Sarah joined the Group as Head of Legal in October 2018 and was promoted to Group General Counsel & Company Secretary in July 2020. 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 for both the Group and the Northern VCTs. 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, Faradion and Intechnica Holdings. Sarah is also heavily involved in the Group's M&A activities and led the integration planning process for the FDC acquisition.

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; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's and the Group's position and the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 3 July 2023 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 Senior Independent Director, Chief Financial Officer and Company Secretary, I am responsible for our corporate governance standards. The Board is collectively responsible for setting the tone and culture of the Company and promoting good corporate governance.

Mercia has been a member of the Quoted Companies Alliance ("QCA") since 2015 to further its understanding of, and adherence to, good corporate governance practice. It formally adopted the QCA 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.

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 by 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 management 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 Alice Grieve, ESG Lead and Compliance Manager, 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. Consistent with our commitment to reduce our carbon emissions, Mercia continues its migration to communicate electronically with our shareholders and this 2023 annual report will be the last paper version to be automatically issued to shareholders.

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 40 an 41. Their membership of Committees is set out on pages 47 and 51.

Corporate governance report continued

Independence of Non-executive Directors
The Board considers many criteria in assessing the independence of the Non-executive Directors including the criteria recommended by the QCA Code, that provides that a director tenure of nine years or more creates a rebuttable presumption that a non-executive is no longer independent. Additionally, both the QCA Code and the articles of association of the Company provide that a director with a tenure of nine years or more shall be required to retire annually but shall still be eligible for re-election.

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. In the case of Ray Chamberlain, the Board considers that his independent judgement is not compromised notwithstanding his interest in 14.8% of the Company's issued share capital. Furthermore, the Board is of the view that Ray Chamberlain's tenure of nine years is not prejudicial to his ability to carry out his duties effectively or independently. His individual experience and continuity of Board membership enhances the effectiveness of the Board as a whole.

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 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 was performing very well.

Following the recommendation of the Nominations Committee, the Board has been developing areas identified in the LYBAS report. Significant progress has been made towards planned and emergency succession planning for the Board. Membership of the Board Committees has been reviewed and Diane Seymour-Williams is now Chair of the Remuneration Committee.

Subsequent to the 2022 review, LYBAS joined the Board meeting of the Company in May 2023 to review progress of the areas previously identified for development. LYBAS was complimentary of the progress made since the 2022 review.

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 2023 eight Board meetings occurred. Details of attendance at the scheduled Board and Committee meetings during the year are as follows:

Director	Board	Audit and Risk	Remuneration	Nominations
Ian Metcalfe OBE	7/8	3/3	4/5	2/2
Dr Mark Payton	8/8	3/3[1]	3/5[1]	–
Martin Glanfield	8/8	3/3[1]	–	–
Julian Viggars	8/8	3/3[1]	–	–
Diane Seymour-Williams	8/8	–	5/5[1,3]	2/2[1,4]
Ray Chamberlain	8/8	–	–	–
Dr Jonathan Pell	7/8	3/3	5/5	2/2
Caroline Plumb OBE	7/8	3/3	2/3[2]	2/2

1 Attended by invitation.
2 Caroline Plumb OBE stepped down from the Remuneration Committee on 26 July 2023.
3 Diane Seymour-Williams was appointed to the Remuneration Committee on 26 July 2023.
4 Diane Seymour-Williams was appointed to the Nominations Committee on 26 July 2023.

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 51 to 55 of this annual report. The Company Secretary attends all Committee meetings as Committee Secretary.

Nominations Committee

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

Throughout the year, the Committee comprised Ian Metcalfe OBE as Chair, Dr Jonathan Pell, Caroline Plumb OBE and Diane Seymour-Williams who joined the Committee on 26 July 2022. The Nominations Committee met twice formally during the year.

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 and the mitigating actions being taken by the Executive Directors;
- 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 Measures and climate reporting; and
- considering the independence of the Group's external auditor in respect of its appointment to conduct financial due diligence on the proposed acquisition of Frontier Development Capital Ltd.

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 OBE 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 promotes 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 1 to 39 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 12 and 45 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 14 to 17 of this Annual Report and the AIM Rule 26 section of the Group's website
	4. Embed effective risk management, considering both opportunities and threats throughout the organisation	✓	The Group's approach to risk management together with the principal risks and uncertainties applicable to Mercia, their possible consequences and mitigation are set out in the Principal Risks and Uncertainties section of this Annual Report. The Board reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified – 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 31 to 39 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 40 to 55 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 (e.g. by the Board in January 2022 and May 2023). 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 40 and 41 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 commenced in 2022/23 and continue to be implemented in 2023/24. A follow up review in May 2023 was positive in respect of progress made.	Page 46 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 Investment 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 2022/23 and 2023/24 include Mercia's cultural values.	Pages 3 and 14 to 17 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 44 to 55 of this Annual Report and the AIM Rule 26 section of the Group's website

Corporate governance report continued

	Governance principles	Compliant	Explanation	Further reading
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 13 and pages 51 to 55 of this Annual Report and the AIM Rule 26 section of the Group's website

Internal controls

The Board acknowledges its overall responsibility for the Group's system of internal controls and the ongoing review of their effectiveness. These controls are designed to safeguard the Group's assets and are considered appropriate for an AIM company of the size and complexity of Mercia. 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; and
- 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 21 September 2023 in London.

Ian R Metcalfe OBE
Non-executive Chair
3 July 2023

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 their own remuneration.

From 1 April 2022 until 26 July 2022, the Remuneration Committee comprised Ian Metcalfe OBE as Chair, Caroline Plumb OBE and Dr Jonathan Pell. On 26 July 2022, Diane Seymour-Williams became Chair of the Committee, Caroline Plumb OBE stepped down as a member of the Committee and Ian Metcalfe OBE and Dr Jonathan Pell continued as Committee members. The Remuneration Committee is expected to meet at least twice a year and otherwise as required. During the year, the Committee met formally five 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 total shareholder returns over the long 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 together with 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 December 2020 the Committee commissioned an 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.

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 2023, the Committee initially 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:

i) FuM performance – 30% weighting;
ii) Total shareholder return – 45% weighting; and
iii) ESG progress, high-performing teams and Mercia core values – 25% weighting.

In determining the bonus payable for the year to 31 March 2023, the Committee first noted that the Group's financial performance was, for the third year running, achieved without having to apply for any Government-backed financial support, nor delay any payments to HMRC or suppliers.

Having considered the financial performance of the Group and the continuing successful leadership of the senior executives against each of the above criteria, the Committee awarded 55% bonuses to each of the four senior executives. The Committee has agreed that on this occasion, the full bonus award will be paid in cash.

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 2024, with the bonus award payable in cash up to 50% of base salary and the remainder settled in cash, with the net payment receivable applied in purchasing shares in Mercia, which will be held for a minimum of one year.

Remuneration report continued

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

i) FuM performance – 30% weighting;
ii) Total shareholder return – 45% weighting; and
iii) 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	298	6 months
Martin Glanfield	15 December 2014	243	6 months
Julian Viggars	17 April 2018	243	6 months
Ian Metcalfe OBE	15 December 2014	88	3 months
Diane Seymour-Williams	3 November 2020	50	3 months
Ray Chamberlain	15 December 2014	42	3 months
Dr Jonathan Pell	22 December 2017	49	3 months
Caroline Plumb OBE	12 June 2018	42	3 months

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

- Chair – £87,980
- Senior Independent Director – £50,350
- Committee Chair – £48,760
- Non-executive Director - £42,400.

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 then from 1 April 2022 to 31 March 2023, 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 2023, new share option awards were granted to a number of staff. The total number of options in issue as at 31 March 2023 was 28,598,579, split between 1,540,714 of options which were exercisable as at 31 March 2023 following the vesting of January 2020 issued options during the year, and 27,057,865 which were not exercisable. Included in the options in issue as at 31 March 2023 are 1,998,439 2022 SAYE Options (described below) and 8,800,000 Performance Share Plan options granted to the four senior executives in 2021 (2022: 25,507,139, none of which were exercisable and included 8,800,000 Performance Share Plan options).

The Mercia Save As You Earn ("SAYE") Plan

On 29 June 2022, the Company adopted the SAYE Option Plan Rules 2022 ("SAYE Rules") to support the Company's SAYE share option scheme ("SAYE Scheme"), established with Equiniti Group as the scheme provider.

On 15 September 2022, all employees of the Company with continued employment of at least six months were invited to join the SAYE Plan. In accordance with the SAYE Rules and as approved by HMRC, the price of the SAYE share options offered to employees ("2022 SAYE Options") was the closing share price of the Company on the last business day before the invitation (being 30.25 pence) discounted by 20% (being 24.20 pence, the "Option Price").

The 2022 SAYE Options are connected to a three-year savings contract which commenced on 1 November 2022. The Bonus Date of the savings plan is 1 November 2025 and the SAYE Options are exercisable within six months of the Bonus Date. The Options may be exercised earlier than the Bonus Date in the limited circumstances specified in the SAYE Plan.

Fifty-one employees applied to join the scheme subscribing for an aggregate of 2,028,191 2022 SAYE Options, which were granted on 9 September 2022. As at 31 March 2023, a total of 1,998,439 2022 SAYE Options were in issue. These options are included within the 10% limit referred to above.

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 and the third plan period ran from 1 April 2019 to 31 March 2021. The fourth plan commenced on 1 April 2021 and ran 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. No payments to Plan Participants under the CIPs have yet been made.

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	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Executive Directors										
Dr Mark Payton	**281**	270	**31**	30	**2**	2	**155**	230	**469**	532
Martin Glanfield	**229**	220	**25**	24	**4**	3	**126**	187	**384**	434
Julian Viggars	**229**	220	**25**	24	**3**	3	**126**	187	**383**	434
Non-executive Directors										
Ian Metcalfe OBE	**83**	83	**–**	–	**–**	–	**–**	–	**83**	83
Diane Seymour-Williams	**48**	48	**–**	–	**–**	–	**–**	–	**48**	48
Ray Chamberlain	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Dr Jonathan Pell	**46**	46	**–**	–	**–**	–	**–**	–	**46**	46
Caroline Plumb OBE	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
	996	967	**81**	78	**9**	8	**407**	604	**1,493**	1,657

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.

Remuneration report continued

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 are paid half yearly and are subject to Income Tax.

As a result of a number of successful MFM Plan exits, the following bonuses were paid during the year:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Executive Directors		
Dr Mark Payton	**161**	–
Martin Glanfield	**11**	–
Julian Viggars	**89**	–
	261	–

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, may 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 four senior executives 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 2023, are set out below:

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

* Following satisfaction of the performance condition, 946,502 of options held by Dr Mark Payton vested on 28 January 2023, with one-third exercisable from 28 January 2023, one-third from 28 January 2024 and the remaining one-third from 28 January 2025. As at 31 March 2023, 315,501 of these options were exercisable.

** Following satisfaction of the performance condition, 823,045 of options held by Martin Glanfield and 823,045 of options held by Julian Viggars vested on 28 January 2023, with one-third exercisable from 28 January 2023, one-third from 28 January 2024 and the remaining one-third from 28 January 2025. As at 31 March 2023, 274,348 of options held by Martin Glanfield and 274,348 of options held by Julian Viggars were exercisable.

1 Of the total options which vested on 28 January 2023, none of the 315,501 options held by Dr Mark Payton, 274,348 held by Martin Glanfield and 274,348 held by Julian Viggars were exercised in the subsequent period to 31 March 2023, and so remained outstanding as at 31 March 2023. A further one-third will become exercisable from 28 January 2024 with the final one-third from 28 January 2025.

2 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.

3 The PSP options will vest on 9 July 2024 subject to 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 PLC are set out below:

	Number of Ordinary shares as at 31 March 2023	Number of Ordinary shares as at 31 March 2022
Ian Metcalfe OBE[1]	**357,709**	292,609
Dr Mark Payton[1,2]	**7,184,876**	7,021,604
Martin Glanfield[1,2]	**1,599,118**	1,466,887
Julian Viggars[1]	**978,640**	846,385
Diane Seymour-Williams	**250,000**	250,000
Ray Chamberlain[3]	**65,194,766**	65,194,766
Dr Jonathan Pell	**–**	–
Caroline Plumb OBE	**40,000**	40,000

1 In July 2022, Ian Metcalfe OBE, Dr Mark Payton, Martin Glanfield and Julian Viggars each increased their shareholding in Mercia Asset Management PLC by purchasing 65,100 shares, 163,272 shares, 132,231 shares and 132,255 shares respectively.

2 In January 2022, a person closely associated with Dr Mark Payton, and Martin Glanfield, each 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).

Diane Seymour-Williams
Chair of the Remuneration Committee
3 July 2023

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 2023 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;
- 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 2023 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Company balance sheet, 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. 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 the 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:
- Assessing the forecast 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 the Directors' method of assessing going concern in light of market volatility; and
- 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 the 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]	95% (2022: 97%) of Group profit after tax 89% (2022: 96%) of Group revenue 96% (2022: 99%) of Group total assets		
Key audit matters		**2023**	2022
	Valuation of Unquoted Investments	✓	✓
	Revenue Recognition	✓	✓
	Valuation of Goodwill and Intangible Assets	✓	✓
	Acquisition of Frontier Development Capital Limited	✓	×

1 These are areas which have been subject to a full scope audit by the group engagement team and specified audit procedures performed by the group engagement team and the component auditor teams.

Materiality	*Group financial statements as a whole:* **2023:** The materiality for the Group was set at £5,200,000 based on 2.5% of net assets. **2022:** 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. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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, and Enterprise Ventures Limited. The financial information of all significant components were subject to full scope audits with EV Business Loans Limited, Mercia Investments Limited and Frontier Development Capital Limited, the non-significant components, subject to procedures, including specific testing and analytical 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, - VCT share offer fees, - Exceptional performance fees, - Custodian fees and Business services fees (other revenue). There is a risk that fund management fees are not calculated or recognised in accordance with relevant accounting standards or the relevant Limited Partnership Agreements or investment management agreements. Having regard to the potential for fraud in relation to revenue recognition, we consider this risk most prevalent in areas subject to potential manipulation or judgement. For example fees based on an unlisted NAV. In respect of initial management fees and portfolio directors' fees there is a risk that these are not recorded in the correct period in accordance with the requirements of applicable accounting standards. In respect of VCT 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.	We assessed whether the accounting policies of the Group are in accordance with the applicable accounting standards. 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 fund management fees were recalculated using the investment memorandums and commitments were agreed to custodian reports, where applicable. In relation to the VCT share offer and custodian fees, a recalculation was performed based on the NAV, agreeing this to audited or half year financial statements. Initial management fees and portfolio director fees were sampled, agreed to the signed funding agreement and recalculated to determine whether they were recognised in the correct period. **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 matters continued

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of Unquoted investments (Note 1 and 19 to the financial statements)	The share price valuation of the Group is driven in part by the value of the investments in the Consolidated Statement of Comprehensive Income. 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 investments, 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 92% 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 2023. **Valuations based on indicative offers** For such investments we performed the following procedures for all investments within our sample: - Considered whether the valuation methodology is the most appropriate in the circumstances under the IPEV Guidelines - Checked the arithmetic accuracy of the investment valuations - Verified and benchmarked key inputs and estimates, i.e. the indicative offer to independent information. **Valuations based on multiples** For such investments we performed the following procedures for all investments within our sample: - Considered whether the valuation methodology is the most appropriate in the circumstances under the IPEV Guidelines - Checked the arithmetic accuracy of the multiples-based investment valuations - Verified and benchmarked key inputs, and estimates, i.e. the multiples, to independent information such as broker supplied multiples. **Key observations** Based on the procedures performed we consider the methodology and assumptions used by management to value the investments to be appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of Goodwill and Intangible Assets (Note 1, 15 and 16 to the financial statements)	The Group is required by applicable accounting standards to undertake an annual impairment review of all assets including goodwill. 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 obtained and read Management's impairment assessment of goodwill and intangible assets. We have considered whether 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 the 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 or intangible assets 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 and net asset value to ascertain whether there were any indicators of impairment. We have considered the reasonability of forecast cash flows by performing an assessment of the performance of the underlying 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.
Acquisition of Frontier Development Capital Limited (Notes 1 and 14 of the Financial Statements)	During the year the Group acquired Frontier Development Capital Limited ("FDC). Associated with this acquisition are intangible assets that need to be recognised upon acquisition, as well as any goodwill from this acquisition. There is a considerable amount of subjectivity in valuing intangibles of this nature. The accounting treatment of acquisitions under IFRS 3 can be complex. In particular any split between consideration and post combination remuneration along with the split of consideration between cash and share-based payments are complex areas that are susceptible to error. For these reasons, the acquisition of Frontier Development Capital Limited was determined to be a key audit matter.	We obtained, read and assessed the valuation of the intangible asset performed by Management and reviewed by Management's expert. We assessed the independence, objectivity, capability and credentials of Management's expert before engaging our own internal valuations experts to assist with challenging the key assumptions, such as discount rate applied, underlying the valuation. We read the relevant paragraphs of IFRS 3 Business Combinations and compared this to management's treatment to ensure the accounting treatment adopted is reasonable. When considering the cash flow forecasts used to value the intangible, we challenged the appropriateness of revenue figures, anticipated growth, staff costs and period of recognition (based on the likely life of the funds). We tested the accuracy of the fair value calculation. We tested the amount of the consideration recognised. As this is formed of initial and deferred consideration, we tested both of these items to the relevant agreement and bank statements (where already paid), considering also the recognition criteria applied to the deferred consideration. Where expenses have been declared as acquisition-related costs we ensured that they meet the criteria for being recognised as such. We considered the accounting treatment of the deferred tax liability being recognised with regards to the intangible asset, ensuring the tax rate used is the correct one and that deferred tax has been appropriately included in the goodwill calculation. We agreed cash to supporting documentation and performed analytical review procedures on the acquisition date balance sheet to assess the appropriateness of the fair values. **Key observations** Based on the work performed we did not identify any indications that the carrying value of goodwill and acquired 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:

	2023		2022	
	Group financial statements £	**Parent Company financial statements £**	Group financial statements £	Parent Company financial statements £
Materiality	**5,200,000**	**3,700,000**	5,000,000	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 and Parent Company 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 and Parent Company that shareholders would receive.			
Performance materiality	**3,800,000**	**2,500,000**	3,500,000	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 and Parent Company's overall control environment, the expected total value of known and likely misstatements and the level of transactions in the year.			

Component materiality
For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 2.5% and 73% (2022: 2.2% and 76%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £127,000 to £3,800,000 (2022: £38,000 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 £260,000 (2022: £187,500). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: - the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and - the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: - adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or - the Parent Company financial statements are not in agreement with the accounting records and returns; or - certain disclosures of Directors' remuneration specified by law are not made; or - we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Our tests included, but were not limited to:
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance; and
- review of minutes of board meetings throughout the year.

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

Auditor's responsibilities for the audit of the financial statements continued
Extent to which the audit was capable of detecting irregularities, including fraud continued

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our audit work focussed on revenue recognition, the valuation of unquoted investments and the valuation of goodwill and intangible assets, where the risk of material misstatement due to fraud is the greatest (refer to the Key Audit Matter section). We also:
- Obtained independent evidence to support the ownership of investments;
- Recalculated fund management fees in total; and
- Obtained independent confirmation of bank balances.

In addressing the risk of management override of controls we sample tested journals to supporting documentation 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 who were deemed to have the appropriate competence and capabilities 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
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Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
3 July 2023

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 2023

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Revenue	3	**25,881**	23,183
Administrative expenses	7	**(21,001)**	(17,857)
Realised (loss)/gains on sale of direct investments	19	**(849)**	9,878
Fair value movements in direct investments	4	**1,201**	11,385
Share-based payments charge	6	**(1,049)**	(1,109)
Amortisation of intangible assets	16	**(2,337)**	(2,033)
Movement in fair value of deferred consideration	24	**(1,462)**	(522)
Operating profit before exceptional item		**384**	22,925
Exceptional item	8	**(372)**	-
Operating profit		**12**	22,925
Finance income	9	**2,428**	4,452
Finance expense	10	**(31)**	(15)
Profit before taxation		**2,409**	27,362
Taxation	11	**427**	(1,262)
Profit and total comprehensive income for the year		**2,836**	26,100
Basic earnings per Ordinary share (pence)	12	**0.64**	5.93
Diluted earnings per Ordinary share (pence)	12	**0.63**	5.82

All results derive from continuing operations.

The notes on pages 67 to 89 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2023

	Note	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Assets			
Non-current assets			
Goodwill	15	**20,892**	16,642
Intangible assets	16	**18,159**	15,713
Property, plant and equipment	17	**122**	113
Right-of-use assets	18	**842**	417
Investments	19	**136,550**	119,558
Total non-current assets		**176,565**	152,443
Current assets			
Trade and other receivables	20	**3,787**	1,074
Short-term liquidity investments	21	**279**	5,235
Cash and cash equivalents	21	**37,555**	56,049
Total current assets		**41,621**	62,358
Total assets		**218,186**	214,801
Current liabilities			
Trade and other payables	22	**(6,813)**	(6,963)
Lease liabilities	23	**(333)**	(157)
Deferred consideration	24	**(1,227)**	(2,869)
Total current liabilities		**(8,373)**	(9,989)
Non-current liabilities			
Lease liabilities	23	**(574)**	(295)
Deferred consideration	24	**(1,778)**	–
Deferred taxation	25	**(4,540)**	(3,928)
Total non-current liabilities		**(6,892)**	(4,223)
Total liabilities		**(15,265)**	(14,212)
Net assets		**202,921**	200,589
Equity			
Issued share capital	26	**4**	4
Share premium	27	**83,744**	81,644
Other distributable reserve	28	**63,266**	66,919
Retained earnings		**51,341**	48,505
Share-based payments reserve		**4,566**	3,517
Total equity		**202,921**	200,589

The notes on pages 67 to 89 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 63 to 89 were approved by the Board of Directors and authorised for issue on 3 July 2023. 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 2023

	Note	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Cash flows from operating activities:			
Operating profit		**12**	22,925
Adjustments to reconcile operating profit to net cash generated from operating activities:			
Depreciation of property, plant and equipment	17	**68**	70
Depreciation of right-of-use assets	18	**239**	154
Loss/(gains) on sale of direct investments	19	**849**	(9,878)
Fair value movements in direct investments	4	**(1,201)**	(11,385)
Share-based payments charge	6	**1,049**	1,109
Amortisation of intangible assets	16	**2,337**	2,033
Movement in fair value of deferred consideration	24	**1,462**	522
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		**(1,087)**	2,986
(Decrease)/increase in trade and other payables		**(709)**	614
Cash generated from operating activities		**3,019**	9,150
Corporation tax paid		**(1,819)**	–
Net cash generated from operating activities		**1,200**	9,150
Cash flows from direct investment activities:			
Sale of direct investments	19	**3,744**	16,309
Purchase of direct investments	19	**(20,778)**	(19,884)
Investee company loan repayments	19	**125**	1,500
Investee company loan interest and redemption premiums received	9	**1,979**	4,438
Net cash (used in)/generated from direct investment activities		**(14,930)**	2,363
Cash flows from other investing activities:			
Interest received from cash deposits	9	**404**	13
Purchase of property, plant and equipment	17	**(77)**	(76)
Acquisition of subsidiary undertaking	14	**(6,951)**	-
Cash acquired with purchase of subsidiary undertaking	14	**2,882**	-
Purchase of fund management contracts	24	**(2,100)**	(2,100)
Decrease/(increase) in short-term liquidity investments	21	**5,000**	(5,000)
Net cash used in other investing activities		**(842)**	(7,163)
Net cash used in total investing activities		**(15,772)**	(4,800)
Cash flows from financing activities:			
Dividends paid	13	**(3,653)**	(2,641)
Interest paid	10	**(31)**	(15)
Payment of lease liabilities		**(238)**	(136)
Net cash used in financing activities		**(3,922)**	(2,792)
Net (decrease)/increase in cash and cash equivalents		**(18,494)**	1,558
Cash and cash equivalents at the beginning of the year		**56,049**	54,491
Cash and cash equivalents at the end of the year	21	**37,555**	56,049

Consolidated statement of changes in equity
For the year ended 31 March 2023

	Issued share capital (note 26) £'000	Share premium (note 27) £'000	Other distributable reserve (note 28) £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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**
Issue of share capital	**–**	**2,100**	**–**	**–**	**–**	**2,100**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**2,836**	**–**	**2,836**
Dividends paid	**–**	**–**	**(3,653)**	**–**	**–**	**(3,653)**
Share-based payments charge	**–**	**–**	**–**	**–**	**1,049**	**1,049**
As at 31 March 2023	**4**	**83,744**	**63,266**	**51,341**	**4,566**	**202,921**

Notes to the consolidated financial statements
For the year ended 31 March 2023

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 with registered number 09223445. Its Ordinary shares are admitted to trading on the AIM market of the London Stock Exchange. The registered office address is Mercia Asset Management PLC, Forward House, 17 High Street, Henley-in-Arden, 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 2023, 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
Mercia Company Secretarial Services Limited	14365190
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
Frontier Development Capital Limited	09967393
FDC SPV Limited	12641163
FDC General Partner Limited	11958527

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 International Financial Reporting Standards ("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; and
- level 3 inputs are unobservable inputs for the asset or liability.

Going concern

Based on the Group's balance sheet, including its liquidity position at the year end, its forecast future operating and investment activities, 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.

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. 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 funds under management ("FuM") and are recognised as the related services are provided as the performance obligations are met. 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. 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.

VCT share offer fees
VCT 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.

Net exceptional performance fees
Net exceptional performance fees are earned when specified performance metrics exceed hurdles set out within VCT fund management agreements. 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Exceptional item

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 Frontier Development Capital Limited ("FDC") and, in respect of FuM, acquired through the acquisition of the Venture Capital Trust ("VCT") fund management business of NVM Private Equity LLP. 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 FDC is being amortised on a straight-line basis over the expected average duration of the remaining fund management contracts of five years.

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, namely 10 years.

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 ("FVTPL")) 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 FVTPL 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 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Financial instruments continued

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 consolidated 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 consolidated statement of comprehensive income, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Segmental reporting
An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated into reporting segments where they share similar economic characteristics. Note 3 to these consolidated financial statements gives further details on the Group's segmental reporting.

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

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

The Directors have made the following judgements and estimates, which have had the most significant effect on the carrying amounts of the assets and liabilities in these consolidated financial statements.

Fair value measurements and valuation processes
The judgements required to determine the appropriate valuation methodology of unquoted equity investments 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 2022.

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.

Notes to the consolidated financial statements continued

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

Fair value measurements and valuation processes continued

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.

Accounting for the acquisition of Frontier Development Capital Limited

On 5 December 2022, Mercia acquired the entire issued share capital of Frontier Development Capital Limited ("FDC"), including its wholly owned subsidiaries, FDC General Partner Limited and FDC SPV Limited. The fund management contracts held by FDC have been fair valued on a discounted cash flow basis. A post-tax discount rate of 15.0% has been used and is considered a significant assumption. Should this discount rate be increased by 1.0%, the value of the fund management contracts would reduce by £101,000, with goodwill increasing by a corresponding amount.

The expected useful life of five years is derived from the weighted average remaining life of FDC's fund management contracts on 5 December 2022. Should it be increased by one year, the value of the fund management contracts would increase by £520,000 with goodwill decreasing by a corresponding amount. Should the cash flows associated with these contracts increase by 5.0%, the value of the fund management contracts would increase by £44,000 with goodwill decreasing by a corresponding amount.

Goodwill has been recognised as the difference between the fair value of consideration paid and the intangible asset recognised upon acquisition. Further details are included in note 14 to these consolidated financial statements.

Valuation of contingent consideration

The fair value of the deferred consideration payable in respect of the acquisition of FDC is conditional upon certain conditions being met.

The fair value has been derived from the assessed probability of each contingent consideration condition occurring being 90.0%, discounted at an annual rate of 15.0%. Should the probability be reduced by 10.0% across all three conditions, the discounted value of contingent consideration as at 31 March 2023 would reduce by £319,000.

The discount rate used to fair value the contingent consideration liability is reflective of the risk surrounding the conditions being met. Should the discount rate be increased by 1.0%, the discounted value of the contingent consideration as at 31 March 2023 would reduce by £39,000.

Further detail on the contingent consideration conditions is included in note 24 to these consolidated financial statements.

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 2023 £'000	Year ended 31 March 2022 £'000
Fund management fees	**17,593**	14,957
Initial management fees	**3,680**	2,456
Portfolio directors' fees	**2,934**	2,969
Other revenue	**343**	194
VCT share offer fees	**1,331**	–
Exceptional performance fees	**–**	2,607
	25,881	23,183

4. Fair value movements in direct investments

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Fair value movements in direct investments (note 19)	**1,201**	11,385

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 2023 Number	Year ended 31 March 2022 Number
Asset management	**89**	82
Central functions	**27**	26
	116	108

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

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Wages and salaries	**11,804**	10,972
Social security costs	**1,706**	1,243
Other pension costs (note 29)	**856**	746
	14,366	12,961

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 51, which forms part of these consolidated financial statements.

Notes to the consolidated financial statements continued

6. Share-based payments charge

The Group operates a share option scheme for all employees of the Group and Executive Directors. Further details are set out on pages 52 to 54 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2023 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	28 January 2020	27 January 2030	1,271,113	24.30p
	21 August 2020	20 August 2030	1,021,878	21.50p
	9 July 2021	8 July 2031	860,779	38.50p
	25 July 2022	24 July 2032	2,117,562	29.50p
Unapproved share option scheme	28 January 2020	27 January 2030	3,281,027	24.30p
	21 August 2020	20 August 2021	8,015,122	21.50p
	9 July 2021	8 July 2031	689,221	38.50p
	9 July 2021	9 July 2024	8,800,000	0.00p
	25 July 2022	24 July 2032	543,438	29.50p
Approved SAYE scheme	9 September 2022	8 September 2025	1,998,439	24.20p
			28,598,579	

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

	Year ended 31 March 2023		Year ended 31 March 2022	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**27,507,139**	**17.57p**	20,784,140	25.37p
Granted during the year	**5,459,191**	**27.53p**	11,020,000	7.76p
Forfeited during the year	**(1,899,751)**	**31.58p**	(690,001)	27.11p
Lapsed during the year	**(2,468,000)**	**33.50p**	(3,607,000)	30.80p
Share options outstanding as at 31 March	**28,598,579**	**16.80p**	27,507,139	17.57p
Exercisable at the year end	**1,540,714**		–	
Not exercisable at the year end	**27,057,865**		27,507,139	
Share options outstanding as at 31 March	**28,598,579**		27,507,139	

The options outstanding at 31 March 2023 had a weighted average remaining contractual life of two years (2022: two years). No share options were exercised during the years ended 31 March 2023 or 31 March 2022.

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	Dividend yield	Assumed time to exercise	Assumed volatility	Fair value per option
28 January 2020	24.300p	24.300p	1.0%	–	10 years	30%	9.64p
21 August 2020	21.500p	21.500p	0.5%	–	10 years	40%	10.45p
9 July 2021	38.500p	38.500p	0.5%	–	10 years	40%	10.83p
9 July 2021	0.001p	0.001p	0.5%	–	3 years	40%	18.85p
25 July 2022	29.500p	29.500p	1.8%	3.0%	10 years	34%	6.32p
9 September 2022	24.200p	27.150p	3.0%	3.0%	3 years	33%	6.14p

On the 25 July 2022, share options were granted with a total estimated fair value of £217,000.

On 9 September 2022, share options were granted as part of an employee SAYE scheme. Total options granted as part of the SAYE scheme had a total estimated fair value of £125,000.

In the year ended 31 March 2022, share options were granted on the 9 July 2021 with an estimated fair value of £2,069,000.

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 employees and Executive Directors during the year.

The total charge for the year recognised in the consolidated statement of comprehensive income for share options granted to employees and Executive Directors was £1,049,000 (2022: £1,109,000).

7. Operating profit

Operating profit is stated after charging:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Administrative expenses:		
Staff costs (note 5)	**14,366**	12,961
Marketing, professional adviser, travel and entertainment and other administration costs	**5,634**	4,150
Depreciation of property, plant and equipment (note 17)	**68**	70
Depreciation of right-of-use assets (note 18)	**239**	154
Expenses relating to short-term leases and leases of low-value assets (note 23)	**427**	327
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**153**	115
– Fees payable to the Company's auditor for other services:		
– Review of the interim accounts of the Company	**22**	20
– The audit of accounts of subsidiaries of the Company	**77**	46
– Corporate finance services*	**120**	–
– CASS-related assurance services	**15**	14

* Fees incurred in relation to the acquisition of Frontier Development Capital Limited.

8. Exceptional item

The exceptional item for the year ended 31 March 2023 relates to professional fees incurred in respect of the acquisition of Frontier Development Capital Limited in December 2022.

9. Finance income

Finance income is derived from:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Cash deposits	**404**	12
Short-term liquidity investments	**45**	2
Investee company loans (interest and redemption premium)	**1,979**	4,438
Total interest income	**2,428**	4,452

10. Finance expense

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Interest on lease liabilities	**31**	15
Total interest expense	**31**	15

Notes to the consolidated financial statements continued

11. Taxation

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Current tax		
UK corporation tax	**(157)**	(706)
Deferred tax		
Origination and reversal of temporary timing differences	**584**	508
Effects of changes in tax rates	**–**	(1,064)
Total tax credit/(charge)	**427**	(1,262)

The UK standard rate of corporation tax is 19% (2022: 19%). The deferred tax credit of £584,000 (2022: £508,000) 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 and Frontier Development Capital Limited.

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Profit before taxation	**2,409**	27,362
Tax at the standard rate of corporation tax in the UK of 19% (2022: 19%)	**(458)**	(5,199)
Effects of:		
Income not subject to tax	**589**	4,039
Expenses not deductible for tax purposes	**(318)**	(314)
Share of partnership profits	**(509)**	(513)
Capital losses	**234**	–
Remeasurement of deferred tax for changes in tax rates	**140**	252
Other timing differences not recognised	**749**	473
Total tax credit/(charge)	**427**	(1,262)

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

A total deferred tax liability of £4,540,000 (2022: £3,928,000) as at 31 March 2023 relates to the intangible assets recognised on the acquisition of FDC in December 2022, and the continued recognition of the intangible asset arising on the acquisition of the VCT fund management business in 2019.

A potential deferred tax asset of £3,436,000 (2022: £4,442,000) for cumulative unrelieved management expenses and other tax losses has not been recognised in these consolidated financial statements as their future use is uncertain.

12. 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 2023	Year ended 31 March 2022
Profit for the financial year (£'000)	**2,836**	26,100
Basic weighted average number of Ordinary shares ('000)	**441,156**	440,110
Basic earnings per Ordinary share (pence)	**0.64**	5.93
Diluted weighted average number of Ordinary shares ('000)	**449,348**	448,466
Diluted earnings per Ordinary share (pence)	**0.63**	5.82

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Weighted average number of shares		
Basic	**441,156**	440,110
Dilutive impact of employee share options	**8,192**	8,356
Diluted weighted average number of Ordinary shares	**449,348**	448,466

13. Dividends

	Year ended 31 March 2023		Year ended 31 March 2022	
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 2022	-	-	0.30	1,320
Final dividend declared in relation to year ended 31 March 2022	-	-	0.50	2,201
Interim dividend declared in relation to year ended 31 March 2023	**0.33**	**1,452**	-	-
Final dividend proposed in relation to year ended 31 March 2023	**0.53**	**2,367**	-	-
Total	**0.86**	**3,819**	0.80	3,521

	Year ended 31 March 2023		Year ended 31 March 2022	
Dividends paid during the year	Pence per share	£'000	Pence per share	£'000
Final dividend paid in relation to year ended 31 March 2021	-	-	0.30	1,320
Interim dividend paid in relation to year ended 31 March 2022	-	-	0.30	1,321
Final dividend paid in relation to year ended 31 March 2022	**0.50**	**2,201**	-	-
Interim dividend paid in relation to year ended 31 March 2023	**0.33**	**1,452**	-	-
Total	**0.83**	**3,653**	0.60	2,641

The final dividend for the year ended 31 March 2023 proposed by the Board of 0.53 pence per share, totalling £2,367,000, is subject to shareholder approval at the AGM on 21 September 2023, and as such has not been included as a liability in these financial statements in accordance with IAS 10.

14. Business combination

On 5 December 2022 the Group acquired the entire issued share capital of Frontier Development Capital Limited, including its wholly owned subsidiaries FDC General Partner Limited and FDC SPV Limited, all of which are registered in England. The fair value of the identifiable net assets acquired and the consideration paid under IFRS 3 are as follows:

	Pre-acquisition carrying value £'000	Provisional policy alignment and fair value adjustments £'000	Total £'000
Intangible asset	-	4,783	4,783
Tangible fixed assets	20	-	20
Right-of-use asset	-	566	566
Investments	-	42	42
Cash	2,882	-	2,882
Trade and other receivables	428	(42)	386
Trade and other payables	(1,341)	-	(1,341)
Lease liability	-	(566)	(566)
Deferred tax liability	-	(1,196)	(1,196)
Total identifiable net assets	**1,989**	**3,587**	**5,576**

Notes to the consolidated financial statements continued

14. Business combination continued

Under the terms of the acquisition agreement, the fair value of consideration paid to the vendors was:

	£'000
Cash – initial consideration	5,500
Cash – net cash position	1,451
Cash consideration as shown in the consolidated statement of cash flows	**6,951**
Fair value of contingent consideration (note 24)	2,875
Less identifiable net assets	(5,576)
Goodwill	**4,250**

Revenue and profits

The Group has recognised the following results in respect of the post-acquisition period from 6 December 2022 to 31 March 2023.

	£'000
Revenue	**1,698**
Operating profit	**401**

Prior to acquisition by the Group, FDC had a 30 November year end. The disclosure of the Group's revenue and profit, had the acquisition occurred on 1 April 2022, has not been presented as the determination of these amounts is impracticable.

Fair value

The fair value of fund management contracts held by FDC has been estimated using a discounted cash flow model. The estimated cash flows have been valued at a discount of 15.0%, with the recognised intangible asset amortised over five years.

15. 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	Frontier Development Capital £'000	Total £'000
Cost					
As at 1 April 2021 and 31 March 2022	**2,455**	**7,873**	**6,314**	**–**	**16,642**
Addition	**–**	**–**	**–**	**4,250**	**4,250**
As at 31 March 2023	**2,455**	**7,873**	**6,314**	**4,250**	**20,892**

Goodwill for each business acquired has been assessed for impairment as at 31 March 2023. 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 2024. Key assumptions are a discount rate of 12.0% 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 below their carrying value.

16. Intangible assets

Intangible assets represent contractual arrangements in respect of the acquisition of Enterprise Ventures Group in 2016, the acquired VCT fund management business in 2019 and the acquisition of FDC in December 2022, where it is probable that the future economic benefits that are attributable to those assets will flow to the Group and the fair value of the assets can be measured reliably.

	£'000
Cost	
As at 1 April 2021 and 31 March 2022	**21,835**
Acquisition of a subsidiary	**4,783**
As at 31 March 2023	**26,618**
Accumulated amortisation	
As at 1 April 2021	4,089
Charge for the year	2,033
As at 31 March 2022	**6,122**
Charge for the year	**2,337**
As at 31 March 2023	**8,459**
Net book value	
As at 1 April 2021	17,746
As at 31 March 2022	15,713
As at 31 March 2023	**18,159**

17. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2021	42	78	540	660
Additions	–	–	76	76
As at 31 March 2022	**42**	**78**	**616**	**736**
Acquisition of a subsidiary	**–**	**–**	**20**	**20**
Additions	**–**	**–**	**57**	**57**
As at 31 March 2023	**42**	**78**	**693**	**813**
Accumulated depreciation				
As at 1 April 2021	25	68	460	553
Charge for the year	5	2	63	70
As at 31 March 2022	**30**	**70**	**523**	**623**
Charge for the year	**5**	**2**	**61**	**68**
As at 31 March 2023	**35**	**72**	**584**	**691**
Net book value				
As at 1 April 2021	17	10	80	107
As at 31 March 2022	12	8	93	113
As at 31 March 2023	**7**	**6**	**109**	**122**

Notes to the consolidated financial statements continued

18. Right-of-use assets

	Motor vehicles £'000	Properties £'000	Total £'000
Cost			
As at 1 April 2021		737	737
Additions	115	–	115
As at 31 March 2022	**115**	**737**	**852**
Acquisition of a subsidiary	**–**	**566**	**566**
Additions	**98**	**–**	**98**
As at 31 March 2023	**213**	**1,303**	**1,516**
Accumulated depreciation			
As at 1 April 2021	–	281	281
Charge for the year	13	141	154
As at 31 March 2022	**13**	**422**	**435**
Charge for the year	**49**	**190**	**239**
As at 31 March 2023	**62**	**612**	**674**
Net book value			
As at 1 April 2021	–	456	456
As at 31 March 2022	102	315	417
As at 31 March 2023	**151**	**691**	**842**

19. Investments

The net change in the value of investments for the year is an increase of £16,992,000 (2022: increase of £23,338,000). 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 repayments	–	(1,500)	(1,500)
Disposals	–	(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 1 April 2022	**1,632**	**117,926**	**119,558**
Investments made during the year	**–**	**20,736**	**20,736**
Investments acquired during the year	**–**	**42**	**42**
Investee company loan repayment	**–**	**(125)**	**(125)**
Disposal	**–**	**(4,862)**	**(4,862)**
Unrealised fair value gains on investments	**–**	**20,017**	**20,017**
Unrealised fair value losses on investments	**(663)**	**(18,153)**	**(18,816)**
As at 31 March 2023	**969**	**135,581**	**136,550**

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.

On 18 January 2023, the Group sold its entire equity holding in Intechnica Holdings Limited, generating a realised gain of £1,793,000. Proceeds of £3,731,000 were received on completion, with a further £269,000 received in May 2023.

On 28 January 2023, the Group sold its entire equity holding in Sense Biodetection Limited resulting in a realised loss of £2,644,000. Proceeds received were in the form of an equity shareholding in Sherlock Biosciences Inc.

During the year ended 31 March 2023, the Group sold its equity holding in two other portfolio companies with total proceeds of £13,000, resulting in a £2,000 realised gain.

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 2023 £'000	As at 31 March 2022 £'000
Listed investment	**969**	1,632
Price of recent investment round	**79,522**	62,233
Enterprise value	**52,912**	37,772
Cost	**3,147**	5,625
Impaired value[1]	**–**	12,296
	136,550	119,558

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

As at 31 March 2023, 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**
Eyoto Group Limited	**24.7**	**(5,643)**	**(941)**	**31 December 2021**
Impression Technologies Limited	**65.1**	**6,322**	**(2,491)**	**31 December 2022**
Medherant Limited	**38.4**	**185**	**(1,640)**	**31 March 2022**
Netacea Group Limited	**24.1**	**(14,720)**	**(6,048)**	**31 March 2022**
nDreams Limited	**33.2**	**23,286**	**(3,281)**	**31 March 2022**
Invincibles Studio Limited	**35.5**	**(1,372)**	**349**	**31 October 2021**
sureCore Limited	**22.0**	**(1,269)**	**(726)**	**30 June 2022**
Ton UK Limited t/a Intelligent Positioning	**29.9**	**3,128**	**(368)**	**31 December 2021**
VirtTrade Limited t/a Avid Games	**40.6**	**(4,640)**	**(1,010)**	**31 August 2022**
Warwick Acoustics Limited	**40.3**	**9,233**	**(1,512)**	**30 September 2022**

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

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

20. Trade and other receivables

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Current:		
Trade and other receivables	**2,202**	666
Less: expected credit loss allowance	**(550)**	(318)
Net trade receivables	**1,652**	348
Corporation tax	**890**	–
Other receivables	**268**	193
Prepayments and accrued income	**977**	533
	3,787	1,074

Notes to the consolidated financial statements continued

20. Trade and other receivables continued

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 2023, an amount of £550,000 (2022: £318,000) has been estimated as an expected credit loss allowance in accordance with IFRS 9, in respect of trade receivables primarily from portfolio companies and private investors, 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 2023		Year ended 31 March 2022	
	Gross £'000	Expected credit loss allowance £'000	Gross £'000	Expected credit loss allowance £'000
Not past due	900	(14)	178	(11)
Past due 0-30 days	550	(3)	63	(6)
Past due 31-60 days	199	(112)	90	(39)
Past due more than 61 days	553	(421)	335	(262)
	2,202	(550)	666	(318)

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 2023 £'000	Year ended 31 March 2022 £'000
As at 1 April	318	285
Increase in loss allowance	548	180
Amounts recovered	(144)	(147)
Amounts written off	(172)	–
As at 31 March	550	318

The net increase in the expected credit loss allowance of £232,000 (2022: £33,000) has been recorded against revenue in the consolidated statement of comprehensive income. The maximum exposure to credit risk of the receivables at the balance sheet date is the fair value of each class of receivable disclosed.

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

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Total cash and cash equivalents	37,555	56,049
Total short-term liquidity investments	279	5,235

22. Trade and other payables

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Trade payables	279	412
Corporation tax	–	706
Other taxation and social security	388	854
Other payables	1,490	733
Accruals and deferred income	4,656	4,258
	6,813	6,963

23. 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 2023 is 4.3% (2022: 3.3%). The average incremental borrowing rate applied to vehicle lease liabilities recognised as at 31 March 2023 is 4.0% (2022: 4.0%). As at 31 March 2023, the Group had no lease liabilities in respect of non-cancellable leases committed to but not yet commenced (2022: none). The table below summarises the annual lease costs.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Depreciation expense	**239**	154
Interest expense	**31**	15
Low-value lease expense	**370**	316
Short-term lease expense	**57**	11

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

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Due within one year	**333**	157
Due between one and five years	**574**	295
	907	452

24. Deferred consideration

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Payable within one year	**1,227**	2,869
Payable within two to five years	**1,778**	–
	3,005	2,869

In the year to 31 March 2023, the two final deferred consideration conditions included as part of the acquisition of the VCT fund management business in 2019 were met. In settlement of the deferred consideration therefore due, a cash payment of £2,100,000 was made to the vendors in December 2022, in addition to the issue of Mercia Asset Management PLC Ordinary shares in January 2023 also with a value of £2,100,000. Settlement of both of these final deferred consideration amounts resulted in a fair value charge to the income statement of £1,331,000.

On 5 December 2022, Mercia completed the acquisition of FDC for a total maximum cash consideration of £9,500,000, comprising an initial cash consideration of £5,500,000, plus up to a maximum of £4,000,000 contingent consideration payable upon certain post-acquisition conditions being met.

The deferred consideration has a fair value of £3,005,000 as at 31 March 2023, and is payable upon satisfaction of the following conditions:

- The first condition is met if revenue for the 12-month period to 30 November 2023 exceeds a year-one revenue target. The value of contingent consideration payable is up to a maximum of £1,500,000.
- The second condition is satisfied if revenue for the 12-month period to 30 November 2024 exceeds a year-two revenue target. The value of contingent consideration payable is up to a maximum of £1,000,000.
- The final condition is met if a net new institutional third-party fundraising target, over a two-year period to 30 November 2024, is achieved. Satisfaction of this target triggers £1,500,000 contingent consideration payable to the vendors.

The undiscounted value of contingent consideration payments that the Group could be required to make is up to £4,000,000. Movement in the fair value of the FDC deferred consideration from 5 December 2022 to 31 March 2023 has resulted in a charge to the income statement of £131,000.

Notes to the consolidated financial statements continued

25. Deferred taxation

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Deferred tax liability	**4,540**	3,928

Under IAS 12 Income Taxes, provision is made for the deferred tax liability associated with the recognition of intangible assets arising as part of the acquisitions of the VCT fund management contracts and FDC.

As at 31 March 2023, the deferred tax liability has been calculated using the substantively enacted tax rate of 25% – see note 11 for further detail.

26. Issued share capital

	31 March 2023		31 March 2022	
	Number	£'000	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**440,109,707**	**4**	440,109,707	4
Issue of share capital during the year	**6,471,495**	**-**	-	-
As at the end of the year	**446,581,202**	**4**	440,109,707	4

On 26 January 2023, 6,471,495 new Ordinary shares were issued at a price of 32.45 pence per share to satisfy the final deferred consideration element due in respect of the acquisition of the VCT fund management business in 2019. These new shares were admitted to trading on the AIM market of the London Stock Exchange on 31 January 2023.

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

27. Share premium

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
As at the beginning of the year	**81,644**	81,644
Premium arising on the issue of Ordinary shares	**2,100**	-
As at the end of the year	**83,744**	81,644

The premium on the issue of Ordinary shares arises from 6,471,495 new Ordinary shares of £0.00001 each issued at a price of 32.45 pence per share on 26 January 2023.

28. Other distributable reserve

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
As at the beginning of the year	**66,919**	69,560
Dividends paid (note 13)	**(3,653)**	(2,641)
As at the end of the year	**63,266**	66,919

29. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2023 was £856,000 (2022: £746,000). As at 31 March 2023, contributions amounting to £11,000 (2022: £13,000) had not yet been paid over to the plans and are recorded in other payables - see note 22.

30. Financial risk management

In its normal course of business, the Group uses certain financial instruments including cash, trade and other receivables, and equity investments. The Group is exposed to a number of risks through the performance of its normal operations. These are discussed in more detail in the Strategic Report on pages 1 to 39 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 2023	FVTPL £'000	Amortised cost £'000	Total £'000
Long-term financial assets	**136,550**	**–**	**136,550**
Trade and other receivables	**–**	**1,920**	**1,920**
Short-term liquidity investments	**–**	**279**	**279**
Cash and cash equivalents	**–**	**37,555**	**37,555**
Short-term financial assets	**–**	**39,754**	**39,754**
Total financial assets	**136,550**	**39,754**	**176,304**
Trade and other payables	**–**	**(1,769)**	**(1,769)**
Accruals	**–**	**(3,390)**	**(3,390)**
Lease liabilities	**–**	**(907)**	**(907)**
Deferred consideration	**(3,005)**	**–**	**(3,005)**
Total financial liabilities	**(3,005)**	**(6,066)**	**(9,071)**

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)

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 FVTPL. The Group seeks to manage this risk exposure, while optimising the return on risk, by routinely monitoring the performance of these investments and 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.

Notes to the consolidated financial statements continued

30. Financial risk management continued

Market risk continued

Liquidity risk continued

Ultimate responsibility for liquidity risk management rests with the Directors, who have established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The maturity profile of the Group's financial liabilities based on contractual undiscounted payments is as follows:

As at 31 March 2023	**On demand £'000**	**Less than 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**Total £'000**
Trade payables	**–**	**279**	**–**	**–**	**279**
Other payables	**–**	**6,534**	**–**	**–**	**6,534**
Deferred consideration (note 24)	**–**	**–**	**1,500**	**2,500**	**4,000**
Lease liabilities	**–**	**95**	**286**	**615**	**996**
	–	**6,908**	**1,786**	**3,115**	**11,809**

As at 31 March 2023	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 24)	–	–	2,100	–	2,100
Lease liabilities	–	43	129	307	479
	–	5,446	2,229	307	7,982

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 with banks. The Group's trade receivables are amounts due from the investment of assets under management, private investors, 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 2023 £'000	As at 31 March 2022 £'000
Net trade receivables	**1,652**	348
Other receivables	**268**	193
Cash at bank and in hand	**37,555**	56,049
Short-term liquidity investments	**279**	5,235
	39,754	61,825

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 respect of these, the Group has control of the remittance as part of its fund management responsibilities. As at 31 March 2023, an amount of £550,000 (2022: £318,000) 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 at least an 'A' long-term deposit rating as at the year ended 31 March 2023.

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. The Board reviews the capital structure of all constituent elements of the Group on a regular basis to ensure that they comply 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 2023. There have been no movements in financial assets or financial liabilities between levels during the current or prior years. The table in note 19 of these consolidated financial statements sets out the movement in the Level 1 and 3 financial assets from the start to the end of the year.

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Assets:		
Financial assets at fair value through profit or loss – direct investment portfolio		
Level 1	**969**	1,632
Level 2	**–**	–
Level 3	**135,581**	117,926
	136,550	119,558

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Liabilities:		
Financial liabilities at fair value through profit or loss – deferred consideration		
Level 1	**–**	–
Level 2	**–**	–
Level 3	**3,005**	2,869
	3,005	2,869

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 the AIM market of the London Stock Exchange, MyHealthChecked PLC, which is valued using the closing bid price as at 31 March 2023.

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 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 19 of these consolidated financial statements, and on an individual direct investment basis on page 19.

31. Related party transactions
The Group considers all members of the Board to be key management and their remuneration is disclosed in the Remuneration Report on page 51. Directors' shareholdings in the Group are disclosed on page 55 of the Remuneration Report.

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

33. Post balance sheet events
There have been no material events since 31 March 2023.

Company balance sheet
As at 31 March 2023

	Note	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	38	**98**	106
Right-of-use assets	39	**176**	315
Investments in subsidiary undertakings	40	**58,958**	49,133
Trade and other receivables	41	**49,500**	50,500
Total non-current assets		**108,732**	100,054
Current assets			
Trade and other receivables	41	**36,234**	24,977
Short-term liquidity investments		**279**	5,235
Cash at bank and in hand		**10,229**	24,552
Total current assets		**46,742**	54,764
Total assets		**155,474**	154,818
Current liabilities			
Trade and other payables	42	**(690)**	(1,148)
Lease liabilities	43	**(131)**	(127)
Deferred consideration		**(1,227)**	-
Total current liabilities		**(2,048)**	(1,275)
Non-current liabilities			
Lease liabilities	43	**(90)**	(222)
Deferred consideration		**(1,778)**	-
Total non-current liabilities		**(1,868)**	(222)
Total liabilities		**(3,916)**	(1,497)
Net assets		**151,558**	153,321
Equity			
Issued share capital	44	**4**	4
Share premium	44	**83,744**	81,644
Other distributable reserve	45	**63,266**	66,919
Retained earnings		**(22)**	1,237
Share-based payments reserve		**4,566**	3,517
Total equity		**151,558**	153,321

The Company's loss for the year was £1,259,000 (2022: loss of £740,000).

The notes on pages 92 to 96 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 90 to 96 were approved by the Board of Directors and authorised for issue on 3 July 2023. 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 2023

	Issued share capital (note 44) £'000	Share premium (note 44) £'000	Other distributable reserve (note 45) £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 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**
Issue of share capital	**–**	**2,100**	**–**	**–**	**–**	**2,100**
Total comprehensive expense for the year	**–**	**–**	**–**	**(1,259)**	**–**	**(1,259)**
Dividends paid	**–**	**–**	**(3,653)**	**–**	**–**	**(3,653)**
Share-based payments charge	**–**	**–**	**–**	**–**	**1,049**	**1,049**
As at 31 March 2023	**4**	**83,744**	**63,266**	**(22)**	**4,566**	**151,558**

Notes to the Company financial statements
For the year ended 31 March 2023

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

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

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

Going concern
Based on the continued strength of the Company's balance sheet, including its significant liquidity position at the year end, and its forecast future operating and investment activities, 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 and deposits held with banks 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'.

35. 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.

36. Summary of disclosure exemptions adopted

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

- paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based payments (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7 Financial Instruments disclosures;
- IAS 7 Statement of Cash Flows;
- paragraphs 28 to 30 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, specifically in respect of the disclosure of new standards in issue but not yet effective;
- IAS 24 Related Party Disclosures; requirement to disclose related party transactions entered into between members of a group; and
- the following paragraphs of IAS 1 Presentation of Financial Statements:
  - 10(d) (statement of cash flows), 16 (statement of compliance with all IFRS), 111 (cash flow statement information) and 134-136 (capital management disclosures).

37. Results for the Company

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a statement of comprehensive income or a cash flow statement for the Company. The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

38. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2021	42	39	369	450
Additions	–	–	76	76
As at 31 March 2022	**42**	**39**	**445**	**526**
Additions	**–**	**–**	**54**	**54**
As at 31 March 2023	**42**	**39**	**499**	**580**
Accumulated depreciation				
As at 1 April 2021	25	38	289	352
Charge for the year	5	–	63	68
As at 31 March 2022	**30**	**38**	**352**	**420**
Charge for the year	**5**	**1**	**56**	**62**
As at 31 March 2023	**35**	**39**	**408**	**482**
Net book value				
As at 1 April 2021	17	1	80	98
As at 31 March 2022	12	1	93	106
As at 31 March 2023	**7**	**–**	**91**	**98**

39. Right-of-use assets

	Property £'000
Cost	
As at 1 April 2021, 31 March 2022 and 31 March 2023	**702**
Accumulated depreciation	
As at 1 April 2021	246
Charge for the year	141
As at 31 March 2022	**387**
Charge for the year	**139**
As at 31 March 2023	**526**
Net book value	
As at 1 April 2021	456
As at 31 March 2022	315
As at 31 March 2023	**176**

Notes to the Company financial statements continued

40. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2021 and 31 March 2022	**49,133**
Acquisition of a subsidiary	**9,825**
As at 31 March 2023	**58,958**

On 5 December 2022, the Company acquired the entire issued share capital of Frontier Development Capital Limited, including its wholly owned subsidiaries FDC General Partner Limited and FDC SPV Limited, all of which are registered in England. Please see note 14 of the consolidated financial statements for more detail.

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 2023 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
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
Mercia Fund Management (Nominees) Limited	England	100%	Dormant
Mercia Company Secretarial Services Limited	England	100%	Nominee company
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
Mercia Investment Management Limited	England	100%	Dormant
Mercia Technologies Limited	England	100%	Dormant
UGF Nominees Limited	England	100%	Dormant
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
WM AHSN SME General Partner Limited	England	100%	General partner
Frontier Development Capital Limited	England	100%	Fund management company
FDC SPV Limited	England	100%	Intermediate holding company
FDC General Partner Limited	England	100%	General partner

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, and Frontier Development Capital Limited and its subsidiaries which are registered at 45 Church Street, Birmingham, B3 2RT.

41. Trade and other receivables

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**36,007**	24,656
Other debtors	**37**	61
Prepayments and accrued income	**190**	260
Current assets	**36,234**	24,977
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**49,500**	50,500
Non-current assets	**49,500**	50,500

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

42. Trade and other payables

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Trade payables	**86**	160
Amounts due to subsidiary undertakings	**-**	251
Accruals and deferred income	**598**	715
Other payables	**6**	22
	690	1,148

43. Lease liabilities

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

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Depreciation expense	**139**	141
Interest expense	**10**	14
Short-term lease expense	**65**	71
Low-value lease expense	**45**	7

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

	As at 31 March 2023 £'000	As at 31 March 2022 £'000
Due within one year	**131**	127
Due between one and five years	**90**	222
	221	349

The undiscounted lease liability due within one year is £137,000 (2022: £135,000), and £91,000 (2022: £231,000) between one and five years.

44. Issued share capital and share premium

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

Notes to the Company financial statements continued

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

46. Directors' emoluments and employee information
The average monthly number of persons (including Executive and Non-executive Directors) employed by the Company during the year was:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Central functions	**10**	10

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

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Wages and salaries	**895**	1,060
Social security costs	**133**	119
Other pension costs (note 47)	**49**	50
	1,077	1,229

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 51 to 55 of this Annual Report.

47. Retirement benefit schemes
The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2023 was £49,000 (2022: £50,000). As at 31 March 2023, no contribution payments were outstanding (2022: £nil).

48. Related parties
The Company has taken advantage of the exemption available to companies under FRS 101 not to disclose transactions and balances between members of the same group. Note 31 of the consolidated financial statements details the Group's related party transactions.

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

50. Post balance sheet events
There have been no material events since 31 March 2023.

Directors, secretary and advisers

Directors

Ian Roland Metcalfe OBE	(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
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Warwickshire B95 5AA

Independent auditor
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Marylebone
London W1U 7EU

Principal bankers
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Lloyds Bank plc
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Birmingham B3 3SD

Company registration number
09223445

Company registrar
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Nominated adviser and joint broker
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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 the offices of Reed Smith LLP at The Broadgate Tower, 20 Primrose Street, London, EC2A 2RS on 21 September 2023 at 10:00 am for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed in the case of resolutions 1 to 9 as ordinary resolutions and resolutions 10 and 11 as special resolutions):

Ordinary business

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts of the Company for the financial year ended 31 March 2023 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2023.
3. That Dr Mark Payton, who retires as a Director in accordance with Article 88.5 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 Raymond Chamberlain, who retires as a Director in accordance with Article 88.5 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
5. That Julian Viggars, 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.
6. That Dr Jonathan Pell, 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.
7. To reappoint BDO LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next AGM of the Company at which the Company's accounts are laid and to authorise the Directors to determine the amount of the auditor's remuneration.
8. That the Directors be and are hereby generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the "Act"), to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company, up to an aggregate maximum nominal amount of £446.58, provided that this authority shall expire (unless renewed, varied or revoked by the Company in a general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2024 save that the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement, which would or might require shares to be allotted or rights to subscribe for or convert any security into shares, to be granted after the expiry of such authority and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired. The authority granted by this resolution shall replace all existing authorities to allot any shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company previously granted to the Directors, pursuant to section 551 of the Act.
9. That a final dividend of 0.53 pence per Ordinary share for the year ended 31 March 2023 be declared.

Special resolutions

10. That, subject to the passing of resolution 8, the Directors be and are hereby empowered, pursuant to sections 570 and 573 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 8 above, or by way of sale of treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment and/or sale of equity securities, up to an aggregate nominal amount of £446.58, provided that this authority shall expire (unless renewed, varied or revoked by the Company in a general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2024 save that the Company shall be entitled to make, prior to the expiry of such authority, offers or arrangements, which would or might require equity securities to be allotted and/or sold after such expiry, and the Directors may allot and/or sell equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired. The authority granted by this resolution shall replace all existing authorities previously granted to the Directors to allot equity securities for cash, or by way of a sale of treasury shares as if section 561(1) of the Act did not apply.
11. That the Company be authorised generally and unconditionally, in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares provided that:
    a. the maximum number of Ordinary shares that may be purchased is 44,658,120
    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 2024 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
28 July 2023

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 19 September 2023 (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 19 September 2023 (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 19 September 2023 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 28 July 2023, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 446,581,202 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 28 July 2023 is 446,581,202.

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 28 July 2023 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 2023.
2. Resolution 2 – the shareholders are requested to approve the Remuneration Report for the year ended 31 March 2023.
3. Resolutions 3 and 4 – retirement of Directors - pursuant to Article 88.5 of the Articles, at each AGM, any Director with a tenure of nine years or more shall retire annually and submit themselves for re-election by shareholders.
4. Resolutions 5 and 6 – 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.
5. Resolution 7 – 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.
6. Resolution 8 – general authority to allot – this resolution, to be proposed as an ordinary resolution, relates to the grant to the Directors of authority to allot unissued Ordinary shares until the earlier of the conclusion of the AGM to be held in 2024 and 30 September 2024 (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 £446.58 (representing 10% of the issued Ordinary share capital of the Company as at 28 July 2023 (the latest practicable date prior to the publication of this document)).
7. Resolution 9 – 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 27 October 2023 to the holders of Ordinary shares on the Register of Members at the close of business on 29 September 2023.
8. Resolution 10 – statutory pre-emption rights – the Act requires that if the Directors decide to allot unissued shares in the Company or transfer them out of treasury, the shares proposed to be issued or transferred must be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company, the Directors may require flexibility to allot and/or transfer shares out of treasury for cash without regard to the provisions of section 561(1) of the Act. Therefore this resolution, to be proposed as a special resolution, seeks authority to enable the Directors to allot and/or transfer equity securities out of treasury up to a maximum nominal amount of £446.58 (representing 10% of the issued Ordinary share capital of the Company as at 28 July 2023 (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 2024 and 30 September 2024 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
9. Resolution 11 – market purchases – the Directors are requesting authority for the Company to make market purchases of up to 44,658,120 Ordinary shares (representing 10% of the issued Ordinary share capital of the Company as at 28 July 2023 (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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