mercia
asset management

The specialist alternative asset manager

Annual Report and Accounts 2024

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

Powering ambition

We are trusted to deliver for all of our stakeholders. Fuelling UK business ambitions and forging long-term partnerships, we provide venture capital, debt and private equity investment ranging from £100,000 to £20million, to accelerate growth and impact.

£1.8bn

Assets under management
2023: £1.4bn

mercia Ventures
mercia Debt
mercia PE

Strategic report

Governance

Financial statements

Other information

Financial highlights

£30.4m
Revenue
2023: £25.9m

0.55 pence/share
Proposed final dividend
2023: 0.53 pence/share

£5.5m
EBITDA
2023: £5.2m

£46.9m
Cash
2023: £37.8m

£189.2m
Net assets
2023: £202.9m

43.4 pence
Net assets per share (“NAV”)
2023: 45.4 pence

Operational highlights

- Over £0.5billion of organic funds under management inflows with no redemptions (2023: £0.1billion)
  - Awarded five British Business Bank regional mandates totalling c.£360million as part of the Midlands Engine Investment Fund II and the Northern Powerhouse Investment Fund II
  - Successful £60.0million fundraise by the Mercia-managed Northern Venture Capital Trusts, with allotments completed in December 2023 and April 2024
- Unrestricted liquidity of c.£713million across both the balance sheet and managed funds (2023: c.£378million)
- Profitable realisation of direct portfolio investment nDreams Limited, bringing £26.4million of cash back to the Group’s debt-free balance sheet
- In excess of c.£225million invested and lent by Mercia-managed funds (2023: c.£144million)

Natural evolution

Ian R Metcalfe OBE
Non-executive Chair

Throughout the year under review, Mercia has continued to mature and advance.

In spite of the global and domestic market backdrop, across our equity investing and lending asset classes, the Group achieved record fund inflows of c.£562million during the year, taking our total assets under management ("AuM") to c.£1.8billion, almost double where we were three years ago.

In 2022, we welcomed Frontier Development Capital Limited ("FDC") into our Group. Mercia's third acquisition since its Initial Public Offering in 2014, FDC comprises an excellent, well-run team, with strong investor and lending relationships. FDC continues to perform well and we were all particularly pleased to see them be awarded their first British Business Bank ("BBB") debt mandate in February this year.

Board focus

Good governance is fundamental to the long-term success of any company, as well as maintaining a close watch on the horizon and evolving market dynamics. Since our early days as a public company, we have always recognised the importance of covering our total cost base with our revenues, thereby preventing annual shareholder value erosion and excessive cash burn. This has led to our increasing focus on growing the high quality, recurring revenues of our profitable fund management operations – both organically and by acquisition. During this final year of 'Mercia 20:20', in conjunction with external advisers, the Board spent a considerable amount of time focusing on the Company's most appropriate future direction of travel.

Proposed reclassification as a trading company

When Mercia was admitted to trading on the AIM Market of the London Stock Exchange ("AIM") in December 2014, it was established as a proactive, specialist asset manager focused on supporting regional small and medium-sized enterprises ("SMEs"), to achieve their growth aspirations. As such, under the AIM Rules, Mercia was treated as an investing company. At that time, Mercia's net assets were c.£81million, considerably greater than its c.£23million of third-party funds under management.

Since its admission to AIM, the Company has successfully grown both its balance sheet and its funds under management ("FuM"). As at 31 March 2024, Mercia had 22 direct investments fair valued at £116.9million, net assets of £189.2million and had grown its FuM to c.£1.6billion. FuM now dwarf net assets, the largest component of which is the direct investment portfolio.

As the Board looks to the future, and refreshes its three-year strategic plan, Mercia's intention is to focus much more on our profitable and fast-growing FuM. Our intention therefore is no longer to make new direct investments from our balance sheet. We will continue to support our existing direct investments, but anticipate that their number will reduce as these investments are realised.

In considering these proposed changes, we believe it is more appropriate to characterise Mercia as a trading business, whose principal business operation is one of asset management. If held for more than two years, the shares of most trading companies on AIM may currently be inheritance tax exempt. As such, at the Annual General Meeting ("AGM") on 26 September 2024, we will be proposing a resolution that the Company ceases to be an investing company under the AIM Rules. Notice of the AGM (including further details of this proposal) is set out on pages 104 to 108 of this Annual Report.

As a Board, we unanimously believe that our proposed new strategic direction is the right one for all of our stakeholders, be they our many longstanding fund investors, our Venture Capital Trusts ("VCTs"), our employees and, critically, our shareholders.

If the resolution is approved by our shareholders in September 2024, Mercia's new twin strategic objectives will be to increase AuM to in excess of £3.0billion whilst doubling EBITDA during the next three years to 31 March 2027.

Shareholder returns – dividends and share buyback

As part of our strategy to create value for shareholders, we have a strong desire to make cash returns to shareholders, funded from both our trading activities and direct investment realisations. We adopted our 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 0.35 pence per share and is now recommending a final dividend of 0.55 pence per share, representing a total dividend of 0.90 pence per share for the full year (2023: 0.86 pence per share), a c.5% increase on the prior year. Given the overall strength of Mercia's business model and its excellent cash position, the Board's objective remains to maintain this progressive policy.

Following the successful exit from nDreams Limited ("nDreams") in November 2023, we announced a £5.0million share buyback. This buyback concluded in May 2024 and resulted in 15.7million shares being bought back into Treasury, at an average purchase price of 31.8 pence per share.

Taken together (and assuming that the proposed final dividend is approved by shareholders at this year's AGM), Mercia will have returned c.£18million in cash to shareholders since March 2020.

'Mercia 20:20'

Mercia's year to 31 March 2024 demonstrated the variability of venture investing, from the very successful and profitable sale of the Group's direct investment in nDreams for £30.2million (of which £26.4million was received in cash), to the difficult decision in May 2024 to cease further material investment into Impression Technologies Limited.

Across the three-year period, our many business activities have contributed to Mercia comfortably exceeding its three-year 'Mercia 20:20' growth in AuM target, whilst missing its three-year profit before tax target. It is these experiences, together with feedback from our shareholders, which have helped shape our thinking in terms of Mercia's proposed future direction.

Governance

Our commitment to the governance principles of the Quoted Companies Alliance ("QCA") Corporate Governance Code remains resolute and we have recently adopted the new QCA Code. Governance codes aside, our Directors have always regarded integrity and transparency as fundamental cornerstones to the way in which we do business. Succession planning is also an essential element of good governance and this is kept under review by our Nominations Committee.

At this year's AGM, having reached 78 years of age, our co-founder, first Chair and, together with family trusts, Mercia's largest overall shareholder group, Ray Chamberlain has decided to retire from our Board. Ray has been a serial and successful entrepreneur over many decades. In 2010, it was Ray who backed Mark Payton's fund management MBO and whose family trusts provided the follow-on capital thereafter to the most promising fund investees. This was the genesis of what became Mercia's 'funds-first' hybrid investment model.

Ray's measured and thoughtful Board contributions over the last 10 years, together with his unwavering long-term support, have provided the time and stability from which all businesses benefit. I would also like to thank him personally for his wise counsel during my time as Chair. We will all miss Ray's enthusiasm for venture investing and his support for young, regionally based technology-led businesses, such as Warwick Acoustics Limited. We are confident that Ray will remain a strong supporter of our Group, including our proposed new strategic direction.

With a Board currently comprising five Non-executive Directors and three Executive Directors, we do not feel that it is necessary to add an additional Non-executive Director once Ray steps down at our AGM in September 2024. Our Nominations Committee will of course keep our Board's composition and balance of skills and experience under review.

At the operating level, we appointed Jocelyne Bath during the year as our new Chief Operating Officer, and more recently appointed our first full-time heads of Environmental, Social and Governance ("ESG") and Information Systems/ Information Technology ("IS/IT"), both reporting to Jocelyne. We remain as committed as ever to all three principles of ESG, including continuing to measure and offset our relatively small environmental impact, and promoting further diversity, equity and inclusion throughout Mercia, our investment committees and investee portfolio companies. Based upon our investment experience, diverse teams make good teams. The appointment of a dedicated IS/IT manager is an investment in our internal capabilities, so as to increase our efficiency as we continue to scale.

Maintaining good stakeholder relationships also remains critical to our future success, as does continuing to meet the investment objectives agreed with our many asset class fund investors. During the year we have also continued to focus on our relationship with each of the three Northern VCT boards.

Proactive engagement with all of our stakeholder groups remains particularly important to our Board and I am always pleased to meet and engage with shareholders. In recent months, Diane Seymour-Williams, our Senior Independent Director and Remuneration Committee Chair, has also been in contact with our leading shareholders in connection with the one-year extension of the Executive Director's Long-Term Incentive Plan. We will, as last year, hold our forthcoming AGM in London – this year at Rothschild & Co's offices.
I and my fellow Board members look forward to engaging with our stakeholders during the current financial year.

Natural evolution continued

Responsible investing and culture

For Mercia, responsible investing with a clear purpose, a positive company culture and strong teamwork have always gone hand-in-hand. We always seek to invest to make a return for our investors, but we also aim to do so in a manner which treats with respect all of our stakeholders, and the environment in which we operate. You will see examples of how we do this throughout this Annual Report and in particular, on pages 6 and 7, how our Board considers the interests of our stakeholders when complying with its obligations under Section 172 of the Companies Act 2006.

One recent example of this culture and shared purpose was the significant effort put into the BBB tenders by many staff across all parts of our business. They worked tirelessly over many months, often at unsociable hours. Their exceptional efforts, in conjunction with the Group’s investment track record, resulted in the BBB awarding our Group five new fund management mandates totalling £360.0million. ‘Leaning in’ to help others, be it internally or externally, is what defines a #OneMercia employee. We are hugely grateful to the BBB for the vote of confidence placed in us and we are really excited to have won these new and significant regional equity and debt mandates across the Midlands, Yorkshire and the Humber. We have already built new deal pipelines for all five mandates and completed both equity and debt transactions.

The office working environment post COVID continues to evolve and we are constantly looking at how best to combine employee well-being and support with the collaboration, career development and training that is vital in remaining a successful, specialist alternative asset manager. We do this through proactive engagement with our staff, whilst actively monitoring trends across the asset management sector. In everything that we do and say, we seek to be a valuable and well-respected citizen in the many communities in which we are based and whom we serve.

Looking forward

Finishing where I started, we continue to live in uncertain times. Whilst the political and economic backdrop creates investment returns uncertainty, it also creates opportunities for those with the liquidity, local deal flow networks and investment experience to make good equity investment and lending decisions, whilst proactively managing and realising investment returns from existing portfolios.

The Group’s future growth is likely to be driven by a structural shift in investor allocations and Mercia, with its strong capital base, regional presence and investment track record, is well positioned to benefit from this emerging trend. Our profitable SME lending operations have also now grown to FuM of £687.0million, demonstrating our broader investment skills, investor base and reach across the UK. Coupled with our financial discipline and resilient capital and liquidity base, Mercia is in a strong position to support initiatives such as the Mansion House Compact, and we look forward to reporting further progress in due course.

I remain immensely proud to be Chair and part of #OneMercia, a community which works together every day to fulfil our purpose, our investment mandates and our strategic objectives. On behalf of our Board, I sincerely thank each and every person connected with our Group for your continuing support.

Ian R Metcalfe OBE
Non-executive Chair

I remain immensely proud to be Chair and part of #OneMercia, a community which works together every day to fulfil our purpose, our investment mandates and our strategic objectives."

Stakeholder engagement

At Mercia, stakeholder engagement is not just a regulatory requirement; it's woven into the very fabric of our operational culture. Our approach is driven by a commitment to transparency, impact investment and discipline, striving to ensure that every interaction not only meets but also exceeds the expectations of our stakeholders, reinforcing the foundations of trust and integrity upon which Mercia is built.

Transparency in action

For Mercia, transparency is paramount. We believe that clear, open communication is critical in nurturing trust and building enduring relationships. Our engagement strategy encompasses regular updates through regulatory channels, digital newsletters, detailed annual reports and real-time updates via our online platforms. This ensures that our stakeholders – be it shareholders, investors, investees, employees or other community members – are always informed and involved in our journey. Each communication is an opportunity to demonstrate our commitment to being responsible, trusted, responsive, connected and focused on growth.

Disciplined engagement

Our engagement processes are characterised by a disciplined approach that aligns with our key objectives and core values. We conduct regular reviews of our engagement strategies to ensure that they are effective, whilst responding to stakeholder feedback and evolving business needs. This systematic approach ensures that we remain focused on delivering value while adhering to our principles of diversity, equity and inclusion. For instance, our employee engagement initiatives are designed to not only enhance workplace well-being but also to foster personal and professional growth, thereby contributing to overall business success.

Impact through investment

At the heart of Mercia's strategy is the drive to make a positive impact through investment. We endeavour to focus on investing in businesses that promise not only financial returns but also contribute to societal and environmental needs. Our investees are often pioneers in green technology or other emerging technologies, embodying our commitment to impact investing. Our approach extends beyond mere financial support; we engage with these businesses to provide guidance and support to ensure they thrive and, in turn, catalyse regional growth and innovation.

Why we engage

Our stakeholder engagement is a reflection of our belief that business success should be shared success. By investing in our people, supporting our investees and contributing to our communities, we are investing in a sustainable future for all. Mercia's engagement strategy is designed to create a ripple effect of positive change, reinforcing that our business is not just about achieving financial targets, but also about making a meaningful impact.

Stakeholder engagement at Mercia transcends compliance; it is a key pillar of our business strategy, essential for driving sustainable growth and fostering a culture of transparency and accountability. It is through disciplined engagement and a deep commitment to impact investment, that Mercia continues to meet its responsibilities. This is not just part of what we do – it is who we are.

Mercia's Board commits to the Group's long-term success for shareholders, fulfilling Section 172 of the Companies Act 2006. Directors act in good faith, considering long-term impacts, employee interests and community effects."

Section 172

s172 considerations	Mercia's actions	Outcomes & highlights	Further information
(a) Long-term decisions	Proposing 'Mercia 27: 100% growth' plan to ensure growth and sustainability.	Completion of 'Mercia 20:20', exceeding AuM target. Progress underpinned by proposed new strategy, focusing on long-term stakeholder value.	Non-executive Chair's statement: pages 2 to 4 Chief Executive Officer's review: pages 8 & 9
(b) Employee interests	Comprehensive wellness programmes, professional development and inclusive culture initiatives.	Enhanced employee well-being programmes, increased participation in volunteer activities.	People and talent pages 16 & 17
(c) Business relationships	Engaging with shareholders, investors, investees and partners through transparent communication and support.	Strengthened relationships and regional business growth, supporting local communities.	Stakeholder engagement: pages 6 & 7
(d) Community and environmental impact	Committing to environmental sustainability and regional community support.	Maintained carbon-neutral status, increased regional impact.	Sustainability: pages 14 &15 People and talent: pages 16 & 17 Corporate governance: page 47 to 52
(e) High standards of conduct	Upholding integrity and transparency, rigorous risk management and governance training.	Maintained robust governance frameworks; achieved high compliance and ethical standards.	Audit and risk management: pages 33 to 41
(f) Fairness among members	Ensuring fairness in dealings with all stakeholders; managing conflicts of interest with transparency.	Our approach ensures equitable transparency and long-term stakeholder engagement within the framework of our Conflict and Allocation policies ensuring all investors are treated fairly.	Corporate governance report: page 47 to 52

Powering growth

Dr Mark Payton
Chief Executive Officer

Overview

The year to 31 March 2024 was characterised by market volatility, high inflation and high interest rates driving up the costs of doing business, alongside geopolitical uncertainty and a thankfully short-lived recession. It is therefore pleasing to have come through these universal headwinds with record organic growth in our assets under management ("AuM"), driven by Mercia's diversified and differentiated approach to making a positive impact for our investors and investees.

Since our Initial Public Offering in 2014, Mercia has naturally evolved into a specialist alternative asset manager, focusing on impactful investing throughout the UK, sourced via our established local relationships, extensive non-executive director ("NED") and entrepreneurial networks, and one of the UK's largest venture capital and small and medium-sized enterprise ("SME") lending footprints across our 11 offices. Our capital is long term in nature and not subject to redemptions, enabling us to both equity invest and lend capital consistently through market cycles. Our retail capital is raised exclusively via the Enterprise Investment Scheme ("EIS") and Venture Capital Trusts ("VCTs") – tax-efficient structures designed to mitigate the market challenges of low levels of capital availability in early-stage venture investment. We predominantly manage public sector capital on behalf of the British Business Bank ("BBB"), to help business owners access funding outside of London. Additionally, our institutional capital is mainly raised from regional pension funds which aim to support regional businesses from their impact allocations. Where others have faced challenges, we have delivered commercial returns that meet the specific impact requirements of our fund investors. This successful strategy and resulting capital returns have been the primary drivers behind this year's significant organic inflows.

Performance

For our financial year to 31 March 2024, we achieved revenues of £30.4million (2023: £25.9million) and EBITDA of £5.5million (2023: £5.2million). We closed the financial year with £46.9million (2023: £37.8million) cash on hand, no debt and assets under management ("AuM") of c.£1.8billion (2023: c.£1.4billion), up c.27% overall, exclusively driven by organic growth in the year. As at 31 March 2024, we had completed c.64% of the £5.0million share buyback and are pleased to recommend a proposed final dividend of 0.55 pence per share (2023: 0.53 pence per share) which, if approved by shareholders, will take the full-year dividend to 0.90 pence per share, a year-on-year increase of c.5%.

In December 2022, we welcomed Frontier Development Capital ("FDC") into our Group. The company continues to perform well, securing their first BBB fund mandate in February 2024, being the £44.0million Midlands Engine Investment Fund II debt mandate for the West Midlands. The acquisition of FDC has also marked the beginning of our deliberate shift towards adjacent asset classes to venture capital.

Mercia's direct investment portfolio was fair valued at £116.9million as at 31 March 2024 (2023: £136.6million), with the highlight during the year being the sale of nDreams Limited for £30.2million in total, with £26.4million in cash returned back to the balance sheet and a £4.5million realised gain. The overall results were impacted, however, by the post-year end decision to cease further material funding for Impression Technologies Limited ("Impression Technologies") and we therefore fully impaired our investment fair value as at 31 March 2024. This was an extremely tough decision to make as we have supported the business since 2014 via our funds and since 2015 from our balance sheet, because its novel HFQ® technology works and it had a cornerstone customer. Ultimately however, after 10 years of investment support, its licensing revenue model was unable to reach critical mass and profitability. Two separate sale processes either side of last Christmas both generated firm interest in the business, but ultimately no sale transaction occurred.

'Mercia 20:20' outturn

This financial year also brings to an end our three-year 'Mercia 20:20' strategic plan, with AuM growing over the period by c.94%, driven by £415.0million of acquired third-party funds under management ("FuM") with the purchase of FDC in December 2022, and c.£464million via organic growth.

'Mercia 20:20' focused on both sides of our hybrid investment model, firstly seeking ambitious growth in total AuM of 20% on average per annum from c.£940million to a three-year target of c.£1.6billion and secondly, delivering three-year cumulative profit before tax ("PBT") of £60.0million. Despite the tough economic and new fund-raising backdrop, we managed to grow AuM to c.£1.8billion, beating that three-year target. We did not reach the cumulative PBT target of £60.0million, predominantly due to fewer upward fair value movements, the full impairment of our investment in Impression Technologies and fewer profitable realisations from the direct investment portfolio and instead delivered £21.6million, although cash realisations during the three-year period did total c.£47million.

During the year as a regionally focused investor, we invested c.£247million (2023: c.£165million) from our third-party funds and balance sheet, with over 90% allocated outside of London. During the same period, we generated c.£93million of returns across both equity and debt asset classes. Over the 'Mercia 20:20' period, we realised returns of c.£0.4billion. There has been a consistent theme throughout this three-year period; over 90% of the capital invested, the portfolio companies managed and the returns generated (both equity and debt) were spread widely across the UK, excluding London.

New investment focus and impact

In our interim results announcement in November 2023, I said that we would take a more cautionary approach to direct investing from our balance sheet capital and reflecting this caution, we would pause adding new companies to our direct investment portfolio.

Following Mercia's interim results announcement, we conducted an in-depth review to determine our next three-year strategy, in conjunction with support from external advisers. Consistent with our Board's own conclusions, all advisers were firmly aligned with management's belief that Mercia's next phase should focus on growing our profitable FuM, with cash proceeds from direct investment portfolio exits being used to wholly/partly fund inorganic FuM growth, instead of investing into any new direct investments. Existing direct investments will continue to be fully supported in line with our current approach.

We now transition to '**Mercia 27: 100% growth**'. Over the next three years as Mercia continues its natural evolution (and subject to shareholders approving our proposed new investment approach as set out in Ian Metcalfe's Chair statement), we will seek to drive AuM to in excess of £3.0billion whilst doubling EBITDA, focused on building value for shareholders and our other key stakeholders as a growing and sustainable, specialist alternative asset manager. During this new three-year period, we will focus on investing in our people and platforms to build a scalable, efficient and sustainable long-term Group.

Mercia has come a long way since it was established in 2010, starting with three employees, one office and c.£12million in third-party FuM. Today, we have built a leading national specialist, alternative asset management operation characterised by strong organic inflows, robust funds' performance, the high quality of our team and our ability to source a significant number of interesting investments that, over time, lead to investment returns that meet our fund investors' expectations.

Mercia's 'capital-light' investment philosophy was designed to minimise risks throughout the investment journey – from sourcing to capital return. For example, Mercia Ventures, which represents c.50% of Mercia's AuM, focuses on building diverse investment portfolios by sector, geographic location, business stage and by utilising our proprietary value-creation support. As most of Mercia's venture investments yield returns through trade sales ranging from £10.0million to £200.0million, we predominantly target young businesses with relatively modest capital needs. This focus ensures that even if syndicate venture capital availability decreases, as is currently the case, we can continue to support viable businesses using our own substantial funds.

Talent and culture

Our #OneMercia team has grown this year alongside the increase in our third-party FuM, with average staff numbers across the year increasing to 138 (2023: 116). This measured expansion reflects our commitment to investing in top-quality equity investment and lending talent, as well as operational support expertise. Direct share and share option ownership is widespread throughout Mercia, directly aligning the interests of employees and the Board with shareholders. According to a recent internal staff survey, 89% of staff would recommend Mercia as a great place to work. We remain committed to enhancing diversity, equity and inclusion throughout the Group, undertaking specific steps to achieve this goal through our participation in the Women in Finance Charter and the Investing in Women Code.

Outlook

Subject to shareholder approval at our Annual General Meeting in September 2024, the next three years sets Mercia on an evolutionary path towards becoming a leading UK specialist alternative asset manager, focused on impactful capital deployment of third-party FuM in our target markets. I have always firmly believed that our long-term success depends on diversification and cash returns, rather than unrealised fair value movements. Having returned c.£0.4billion across all of our asset classes during 'Mercia 20:20', we have demonstrated our ability to both source and exit well – generating cash returns for our fund investors and shareholders. It is this cash-on-cash performance that has enabled Mercia to achieve record organic inflows during the financial year.

We believe that the ambitious goal of 100% EBITDA growth over the next three years, whilst making continued progress with our progressive dividend policy, provides a clear framework for shareholder value creation. The world faces continued volatility driven by political change, geopolitical challenges and caution across both public and private markets. Amidst this, initiatives such as the Mansion House Compact and an increasing focus by investors on domestic deployment, coupled with our continued investment performance as a specialist alternative asset manager, puts Mercia in a strong position as investors shift capital allocations toward impact investing and private markets.

Our differentiation is one of being close to deal origination, made possible by our physical presence near to or in all major areas of the UK through our 11 offices. On tracking our own performance returns, we see no difference in the level and quality of returns comparing our portfolio companies in London to our broader portfolio across the UK's regions. As we advance our journey to scale, we will harness our local knowledge and presence to expand into adjacent asset classes and sustain our resilient financial performance.

Mercia's alignment with our fund investors' core values and beliefs, delivered by our exceptional team of talented individuals developed over our 14-year history, affirms our proven formula of investment returns and FuM growth. We are committed to providing impactful capital and support based on meritocracy, not geography.

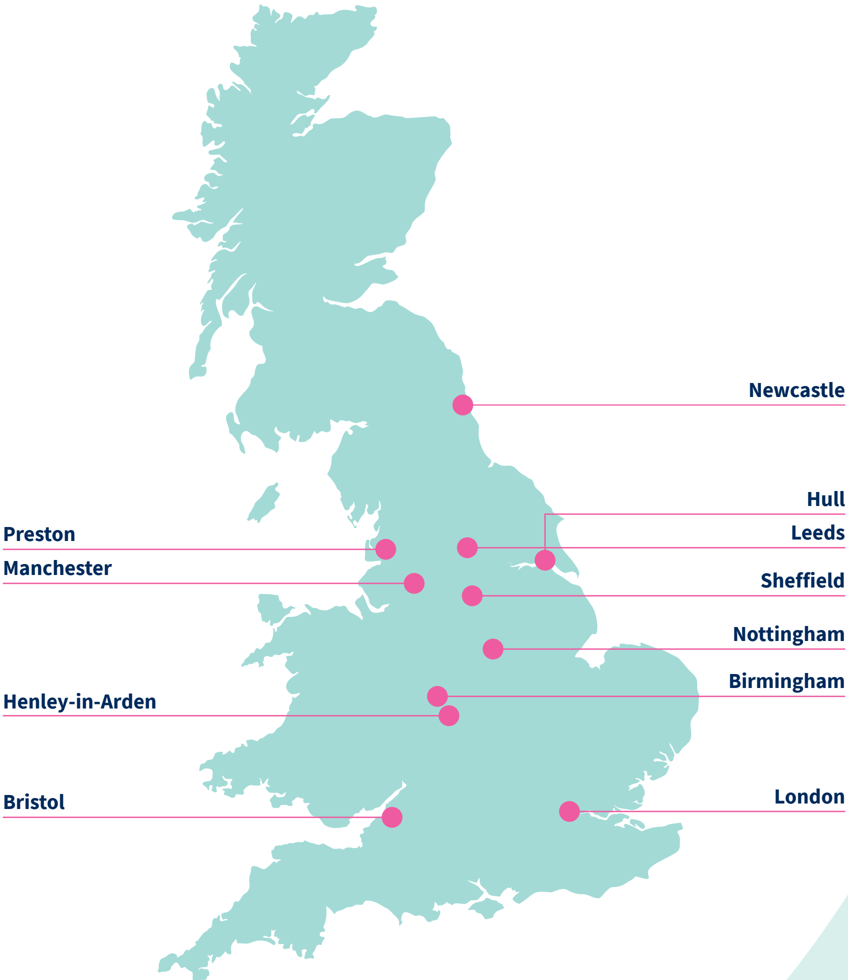
Dr Mark Payton
Chief Executive Officer

Catalysing innovation powering growth and regional impact

Mercia's investment strategy provides comprehensive capital solutions to UK businesses. By leveraging resources from our diverse funds, we deliver tailored support to early-stage start-ups and fuel the expansion of more mature companies. This cohesive approach allows Mercia to be highly responsive and adaptable, maximising immediate impact and driving sustained value creation across our portfolio.

As an exclusively UK-focused investor, we are deeply committed to stimulating and supporting domestic businesses. This focus allows us to leverage local expertise and networks to uncover and cultivate high-potential opportunities, within diverse and vibrant sectors across the regions of the UK. Our dedicated investment in UK businesses not only drives regional economic development, but also ensures that investors have access to exciting, high-growth potential ventures.

Our investment strategy aims to foster innovation, drive regional economic growth and create long-term value across the UK. Mercia's multifaceted approach is spearheaded by our sub-brands: Mercia Ventures, Mercia Debt and Mercia Private Equity ("PE").



Our investment focus aims to foster innovation, drive regional economic growth and create long-term value across the UK."

Up to £10m

Mercia Ventures fuels innovation by identifying and nurturing exciting early to later-stage ventures in high-growth sectors like Digital Health, Software and Deep Tech. By securing regional investment mandates, as well as raising funds through our Enterprise Investment Schemes and Venture Capital Trusts, we invest across the UK including traditionally underserved areas, catalysing growth. Our support ensures portfolio companies can scale effectively with access to the right money at the right time. Our expertise in syndication and our strong liquidity facilitates the follow-on investments that are crucial for rapid growth. This approach ensures continuous financial support throughout the developmental phases of these businesses.

Up to £20m

Mercia Debt and Frontier Development Capital ("FDC") collectively offer flexible, long-term debt funding to bridge the financing gap for profitable UK businesses, including established mid-market businesses and property developers. With the capacity to lend amounts ranging from £250,000 to £20.0million, our debt teams cater for a variety of needs from growth capital to shareholder transactions and property development. Amongst a range of investments, FDC is well-known for funding sustainable brownfield regeneration, supporting environmentally responsible redevelopment projects. Mercia Debt's conservative, yet adaptable, approach focuses on smaller companies with strong management teams, robust financial controls and sustainable business models.

Up to £10m

Mercia PE unlocks value in lower mid-market companies by engaging in less leveraged transactions. Investments are carefully selected based on sector potential and management quality, with a focus on improving operational efficiencies and driving sustainable growth through targeted initiatives.

Balance sheet investments
Up to £20m

We selectively invest our proprietary capital to support the growth of our direct investments. These ventures, once successfully realised, enable us to provide attractive returns to shareholders, by supporting a progressive dividend policy and the potential for share buy-backs. This approach maintains a balance between generating immediate impact through third-party funded ventures and cultivating long-term value for shareholders from balance sheet investments.

Unrestricted cash
c.£713m (2023: c.£378m)

Across all its platforms, Mercia adheres to a set of core principles that guide its investment decisions and shape its overall strategy:

- **Impact-driven growth:** We are committed to generating not only financial returns but also creating positive societal impacts, investing in companies that promise to advance technology, health and environmental sustainability.
- **Guidance:** Beyond financial support, through our Nucleus platform, we provide crucial added value to our portfolio companies, leveraging our extensive expertise, in-house resource, and external networks to enhance their market positioning and operational strength.
- **Regional presence:** We address the geographical funding gap by deploying investment into the UK's regions through our 11 offices. By leveraging this extensive nationwide expertise and resource, we support these businesses to capitalise on growth opportunities, aiming to generate commercial returns for our investors.

By employing this multifaceted approach, we have positioned ourselves as a driving force in the UK's entrepreneurial ecosystem and we are recognised as one of the country's most active investors, nurturing innovation, supporting economic growth and creating long-term value.

New fund management contracts awarded by the British Business Bank

Mercia secured five significant fund management contracts from the British Business Bank, totalling £360.0million in new funds under management. This includes three mandates under the Midlands Engine Investment Fund II and two under the Northern Powerhouse Investment Fund II.

This £360.0million boost underscores Mercia's robust investment track record and reinforces its pivotal role in fostering regional business growth. The funds will support businesses across key UK regions, enhancing Mercia's position in the third-party fund management sector and driving significant economic impact in the Midlands, Yorkshire and the Humber.

* Images courtesy of the British Business Bank.

Securing these five new mandates from the British Business Bank is a pivotal milestone, enhancing our existing capability to enhance economic vitality across the UK's regions. These wins enable us to channel critical capital into ambitious, exciting businesses, fostering innovation and job creation."

Dr Mark Payton
CEO of Mercia Asset Management PLC

Investing with purpose

Jocelyne Bath
Chief Operating Officer

At Mercia, the integration of responsible principles in the areas of Environmental, Social and Governance ("ESG") are core to our operations and investment strategies and part of our ethos. We take pride in the fact that Mercia was founded with the mission to democratise the investment landscape, promoting diversity across regional funding. This founding principle continues to drive our business today.

This section not only details our achievements over the past year, but also highlights the critical role of ESG across our operations and sets out our commitments for the future.

Driving sustainability

Achieving sustainable operations

Our environmental initiatives are focused on minimising our ecological footprint while promoting sustainable practices across our operations. Mercia continues to map corporate emissions on an annual basis, allowing us to identify carbon 'hotspots' and prioritise emission reduction initiatives. Notable endeavours this year included:

- Sustainable transportation:
  - Through salary sacrifice schemes, we have boosted the adoption of electric vehicles and bicycles amongst our staff, thereby reducing the carbon emissions of participants.
- Carbon management:
  - Whilst dedicated to reducing our carbon emissions, we offset Group emissions annually. This year we have offset our emissions through Carbon Neutral Britain™.
- Resource conservation:
  - By enhancing our office recycling policies, which drive the use of reusable resources, we are reducing waste and promoting environmental sustainability.

Strengthening social impact

Fostering a supportive and inclusive workplace

Our commitment to social responsibility manifests in our efforts to create an inclusive, supportive workplace and positively impact the communities we serve. This year's highlights included:

- Employee well-being:
  - Initiatives such as the Birthday Appreciation Day and comprehensive mental wellness programmes have contributed to enhanced employee satisfaction and retention.
- Community engagement:
  - An increased allowance for all employees to participate in up to two days' volunteering activity per year, has supported key community initiatives and strengthened our community ties.

Upholding corporate responsibility

Ensuring integrity and compliance

Our governance framework is designed to ensure robust oversight, ethical practices and compliance across all levels of the organisation. Key developments this year included:

- Risk and compliance:
  - As detailed in our Chair's corporate governance statement, Mercia continues to comply with the 10 principles of the Quoted Companies Alliance Corporate Governance Code.
  - We continue to review our risk register, enhancing our risk mitigation capabilities.
- Governance training:
  - We provided extensive training for our investment teams, ensuring that both new and experienced members are well equipped to uphold our governance standards.

Institutionalising these practices
Specialist roles and quarterly updates
During the year, we recognised the need for a dedicated ESG manager role and have recently made an appointment.

This role is committed to further integrating sustainability and social and corporate responsibility considerations into our activities, as well as leading ESG initiatives.

Certifications and recognitions
Demonstrating our commitment
Mercia is a proud signatory of the Principles for Responsible Investing ("PRI"), the Women in Finance Charter and Women in Investing Code. These commitments reflect our dedication to sustainable investment practices and gender balance within the financial sector. Our efforts have also been recognised in the UK Government-funded 'Impact, environmental and social signals in startups and scaleups' report, positioning Mercia amongst the top 10 investors across a number of ESG metrics.

Looking ahead: continuous improvement and new initiatives
Commitment to future goals
As we move forward, we are dedicated to continuously enhancing our ESG strategies. Our upcoming stewardship policy will formalise our approaches to responsible investing. We are focused on setting ambitious, but realistic, environmental targets to support the UK's transition to a Net Zero economy.

Through dedicated roles, rigorous policies and transparent communication, we aim to lead by example in the ESG arena, fostering sustainable, inclusive growth that benefits all our stakeholders. Our commitment to ESG not only enhances our corporate reputation but also aligns with our strategic objectives, driving long-term value creation and resilience. In short – it is the right thing to do.

Jocelyne Bath
Chief Operating Officer

Jocelyne Bath
Jocelyne joined Mercia in 2023. She has an extensive background working in a variety of high-growth businesses, small to large, in executive and senior roles focused on product differentiation, marketing, revenue maximisation and operations. Prior to Mercia, Jocelyne helped shape OXGENE as chief operating officer and then as managing director following OXGENE's sale to WuXi. Jocelyne holds a Masters in Engineering from the University of Southampton.

Mercia's ESG strategy

	Sustainability	Social impact	Corporate responsibility
Ambition	1. Create a positive environmental impact. 2. Fund green alternatives for sustainable homes and transport. 3. Minimise operational carbon footprint. 4. Formalise our consideration of climate risk as part of the investment and risk management process.	1. Promote diversity, equity and inclusion ("DEI") and provide finance for socially impactful products and investment propositions. 2. Enable small and medium-sized enterprises to promote growth and job creation across the UK. 3. Create opportunities to reduce inequalities, promoting diversity, equity and inclusion.	1. Uphold regulatory best practice through all operational processes. 2. Ensure ESG transparency with clear reporting and communications. 3. Enhance AML and cybersecurity procedures, including governance. 4. Engage with portfolio companies on governance to identify gaps and provide support.
Highlights	1. Achieved carbon neutral status and committed to additional UK regional planting scheme. 2. Enhanced sustainable resource management, including recycling and IT re-use initiatives. 3. Collaborated with cohort of portfolio companies to commence their carbon mapping journey.	1. Enhanced employee well-being programmes. 2. Volunteering days increased with active participation in community projects. 3. Continued support for DEI, including specific initiatives to support gender diversity and inclusion and formalising of DEI policy.	1. Enhanced our structured framework for risk identification, assessment and tracking through the Risk Register. 2. Formalised Mercia's use of an ESG questionnaire to support portfolio companies identify ESG risks and opportunities, and how these are considered as part of their operations. 3. Formalised Mercia's exclusion and vulnerable customer policy.
Short-term focus	1. Strengthen carbon measurement activities for carbon footprint, including Scope 3 emissions. 2. Formalise pathway to support transition to a Net Zero economy 3. Continue to invest in sustainable investment propositions.	1. Broaden DEI targets and measures, further integrating inclusive practices across all business functions. 2. Collaborate with community partners and stakeholders to deliver impactful change.	1. Continue to enhance oversight and regulatory governance frameworks. 2. Training and education across Mercia and portfolio companies. 3. Strengthen supply chain sustainability procedures.

Empowering success through growth and team development

This year has been a period of significant growth and development for Mercia, marked by further targeted recruitment and a strong focus on building a robust and diverse team. Our commitment to regional growth and the enhancement of our company culture has laid a solid foundation for continued success.

Team expansion and diversity
In the past year, we have placed a considerable emphasis on expanding our team to support future growth. We have focused on attracting candidates who not only have a desire to be part of the regions, but also bring diverse skill sets from various sectors and backgrounds. This strategic approach has enabled us to integrate individuals with an interest in developing a career in investment management, thereby enriching our team with both experienced professionals and those at the beginning of their careers.

Our collaborative culture and recruitment efforts have strengthened our teams, while our commitment to training and development ensures that we are building a thriving and resilient workforce.”

Integration and talent development

The expansion of our team has facilitated the integration of less experienced individuals, supported by a robust framework of experienced colleagues who contribute to their training and development. This year, we have been more capable of introducing broader diversity and of nurturing our own talent rather than solely relying on more 'traditional' external hires.

Cultural strength and collaboration

Mercia prides itself on a collaborative culture, which remains one of our core strengths. Despite our growth, we maintain a flat organisational structure, fostering an environment where everyone is encouraged to contribute in achieving our shared goals. This collaborative spirit ensures that there is always support available, encouraging a culture of continuous learning and mutual success.

Retention and professional development

Staff retention has been much higher in this reporting period. This is an important attainment as we continue to perform well against the industry average for financial services. Our commitment to offering a competitive remuneration package, developing our employees' careers and creating a supportive work environment has been instrumental in achieving a higher retention rate.

Through the iteration of our career paths matrices, we clearly define progression paths from analyst to senior roles, ensuring that our employees have a transparent roadmap for their career development. Additionally, we are focusing on the professional growth of our operations team, ensuring they receive the necessary support for their development.

Management development and investment training

We have shaped a comprehensive management development programme and created a Mercia-specific training series, to ensure our investment professionals are aligned in their approach and follow consistent practices. Our significant investment in training and development remains central to our talent management strategy, enabling us to explore new opportunities for diverse qualifications and training initiatives.

Continued commitment to a thriving and resilient workforce

Mercia's focus on regional growth, team diversity and professional development has positioned us well for continued success. Our collaborative culture and recruitment efforts have strengthened our teams, while our commitment to training and development ensures that we are building a thriving and resilient workforce. As we begin the current year, we remain dedicated to fostering a supportive and dynamic environment that enables our employees to thrive and contribute to Mercia's ongoing growth and success.

Impact in action

Will Clark
Managing Director,
Mercia Ventures

Beyond closing the regional funding gap and creating jobs, Mercia's investments drive positive impacts across sectors. Companies like Suiso, ImmuOne and Locate Bio exemplify this. We have backed Suiso, a pioneering Rotherham-based company developing innovative hydrogen generation technology to drive the transition to green energy. Similarly, our backing of the women-led ImmuOne promotes diversity while pioneering lung-modelling technology, aimed at replacing animal testing. In the same vein, our support for Locate Bio has been crucial in advancing groundbreaking biotechnological solutions, enabling significant progress in clinical trials.

We have led various initiatives to deliver meaningful impact. Our Rise & Thrive events offer practical support and training to ambitious women founders facing challenges accessing growth capital. Mercia launched this resilience programme to help under-represented founders scale their companies through workshops.

Furthermore, we host networking events like 'Women in Business: Networking Afternoon Tea' and 'Meet the Funder' sessions, providing opportunities for women in business to connect, seek guidance and access investment. As a Women in Finance Charter signatory, we pledge to foster gender balance in financial services, underscoring the charter's commitment to a balanced and fair industry.

Mercia's impact extends beyond investment, with volunteering and charity support making a tangible difference in communities. From hands-on support and fundraising for food banks to participating in charity hikes and challenges, Mercia's team embodies the #OneMercia spirit, contributing to societal well-being.

Suiso:

Bringing green hydrogen to the regions

Suiso is a pioneering Rotherham-based company developing innovative hydrogen generation technology to drive the transition to green energy. Its compact onsite generators can produce low-cost, low-carbon hydrogen from natural gas or biogas, capturing the carbon as a valuable byproduct.

A study by the UK Government confirmed that Suiso's technology produces significantly lower emissions than existing methods like electrolysis or steam methane reforming. This game-changing approach allows businesses to rapidly decarbonise operations by generating clean hydrogen power on their doorstep, rather than awaiting construction of large, centralised plants.

The £3.0million investment from Mercia Ventures will enable Suiso to scale up and pilot its technology. Longer term, Suiso aims to produce generators supplying enough hydrogen to fuel 50 heavy trucks per day – decarbonising hard-to-abate sectors like heavy industry and transportation.

Suiso exemplifies our focus on backing innovative, purpose-driven businesses aligned with the green transition. By investing in companies like Suiso in underserved regions, we are catalysing the development of ground-breaking Clean Tech solutions and sustainable job creation across the UK.

IsomAb:

Pioneering innovation in diabetes treatment

Mercia invested in IsomAb, a Nottingham-based spin-out dedicated to developing groundbreaking treatments for diabetics at risk of amputation due to peripheral arterial disease. This investment underscores Mercia's commitment to support regional biotech innovation and impactful regional ventures.

Founded in 2022, IsomAb is advancing isoform-specific disease-modifying antibody treatments for serious and life-threatening conditions, initially focusing on peripheral ischaemia. This £7.5million funding round represents a significant step in IsomAb's journey.

IsomAb's lead program, ISM-001, targets the VEGF-A165b isoform of Vascular Endothelial Growth Factor-A (VEGF-A), based on two decades of research by the company's founders. This innovative approach aims to treat peripheral arterial disease in patients with concomitant metabolic syndrome and Type II diabetes by reducing serum levels of VEGF-A165b, crucial for new blood vessel formation in ischemic conditions.

The unique mechanism of ISM-001, targeting a specific pathway and reducing harmful VEGF165b levels, offers an unparalleled treatment approach for patients, especially those with Type II diabetes mellitus and peripheral vascular disease at risk of amputation.

Mercia's investment in IsomAb highlights the company's ability to attract co-funding and reinforces Mercia's role as a purpose-driven impact investor.

Powering forward


Julian Viggars
Chief Investment Officer

Assessing market dynamics

In our November 2023 interim report, I discussed prevailing market conditions and importantly, Mercia's strategic response. I noted: "...we have advised our investees to remain focused on their strategies, bolstered by adequate cash reserves and our disciplined support, to concentrate on the controllable elements and run their businesses efficiently." This focus has served our portfolios well throughout the year.

Funds under management – powering ahead

Dedicated long-term efforts from our talented equity and lending teams

In a year of market volatility and economic uncertainties, Mercia achieved a record organic increase in funds under management ("FuM") with fund inflows exceeding £0.5billion. This substantial growth in FuM, without any redemptions, underlines the trust that investors place in our financial stewardship and is testament to our teams' sustained commitment, capital deployment and disciplined approach to adding value to our investees and the communities in which we operate.

Asset class	1 April 2023 £'m	Transition to realisation phase £'m	Inflows £'m	Performance £'m	Distributions £'m	31 March 2024 £'m	Post-year end inflows £'m	Liquidity 31 March 2024 £'m	Liquidity 31 March 2023 £'m
Venture	630	(47)	365	(9)	(26)	**913**	44	**404**	161
Debt	556	(65)	197	4	(5)	**687**	–	**262**	166
Private equity	48	(16)	–	–	(2)	**30**	–	–	13
Total FuM	**1,234**	**(128)**	**562**	**(5)**	**(33)**	**1,630**	**44**	**666**	**340**
Proprietary capital	203	–	–	(10)	(4)	**189**	–	**47**	38
Total AuM	**1,437**	**(128)**	**562**	**(15)**	**(37)**	**1,819**	**44**	**713**	**378**

Significant contributions from five new British Business Bank mandates

A considerable proportion of this year's FuM inflows came from existing strategic partnerships, principally with the British Business Bank ("BBB"). This long-term collaboration resulted in £360.0million of new regional mandates, awarded in February and March 2024:

In February 2024:

Midlands Engine Investment Fund ("MEIF") II – Equity ESEM: £83.0million allocated for investments in the East Midlands and South East Midlands;

MEIF II – Equity WM: £80.0million allocated for investments in the West Midlands; and

MEIF II – Debt WM: £44.0million allocated for lending in the West Midlands, managed by Frontier Development Capital Limited ("FDC").

In March 2024:

Northern Powerhouse Investment Fund ("NPIF") II – Equity YH: £100.0million allocated for investments in Yorkshire and the Humber; and

NPIF II – Debt YH: £53.0million allocated for lending in Yorkshire and the Humber.

	Second generation BBB funds			First generation BBB funds					
Fund	Original fund size £'m	Mercia mandates awarded £'m	%	Original fund size £'m	Mercia mandates awarded £'m	%	Final fund size £'m	Mercia mandate £'m	%
NPIF YH Equity		100	15.2%		57	14.3%		122	24.4%
NPIF YH Debt		53	8.0%		50	12.5%		92	18.4%
	660	153	23.2%	400	107	26.8%	500	214	42.8%
MEIF Equity		163	40.8%		23	9.2%		54	18.0%
MEIF Debt		44	11.0%		–	–		–	–
	400	207	51.8%	250	23	9.2%	300	54	18.0%
Total	**1,060**	**360**	**34.0%**	**650**	**130**	**20.0%**	**800**	**268**	**33.5%**

As can be seen from the table above, Mercia has increased its initial share of the key Northern Powerhouse and Midlands Engine mandates from c.20% in 2017 via the previous mandate awards, to c.34% and in size from c.£130million to c.£360million. In the first generation NPIF YH and MEIF Proof of Concept ("POC") mandates, Mercia's mandate sizes more than doubled (c.£138million) during the funds' five-year investment phase.

The new recent commitments have increased Mercia's total mandates from the BBB to c.£0.5billion, net of the valuation methodology change (from mandate size to fund net asset value), now that the 2017 NPIF YH Equity and Debt and MEIF POC mandates have moved into their realisation phase.

Other fundraising successes

Our Enterprise Investment Scheme ("EIS") and Northern Venture Capital Trusts ("VCTs") teams also successfully raised substantial new funds. The Northern VCTs' successful £60.0million fundraise was significant in the context of a more challenging fundraising environment. This fundraise underscores the trust Mercia has built in managing the Northern VCTs, which remain a vital catalyst for growth, empowering businesses to thrive across the UK, even in challenging times.

Our EIS team raised c.£14million during the financial year, growing market share against a much softer fundraising environment. Additionally, during the financial year we were awarded a further c.£16million in capital as part of the North East Venture Fund ("NEVF") mandate.

Since 31 March 2024, c.£15million has been successfully raised by our EIS team, as well as shares totalling £29.2million in value being allotted by the Northern VCTs on 4 April 2024, as part of the second half of their £60.0million fundraise.

Achievements of Frontier Development Capital

FDC continued to perform in line with the Group's expectations and has now achieved another of its two-year contingent deferred consideration targets, eight months early, with the addition of £100.0million in FuM via a new Brownfield Regeneration Fund for the West Midlands.

These new inflows have significantly increased our financial dry powder and at the year end, we had c.£713million (2023: c.£378million) of liquidity across all our funds and balance sheet, c.£157million (2023: c.£128million) of which sits within FDC's debt funds.

Direct investments: current standing and market dynamics

The downward re-rating of listed technology companies which began in 2022 persisted into 2023, reducing appetite for venture investment from private market funds. This continued to impact valuations as new funding rounds became more challenging to close, with new money either 'sitting on the fence' or negotiating advantageous terms. The impact of this was particularly felt by those existing investors who were unable to follow their money. Mercia, largely protected by significant liquidity, has navigated these challenges by selectively supporting portfolio companies through co-investment from across our funds. This strategy was evidenced by the substantial capital raises completed by Warwick Acoustics Limited ("Warwick Acoustics"), Tozaro Limited (formerly MIP Discovery Limited) and Locate Bio Limited ("Locate Bio") early in 2024, ensuring operational stability for each investee for approximately 24 months.

The table below lists Mercia's top 20 investments by fair value as at 31 March 2024, including the net cash invested, realisation proceeds, realised gain, fair value movements and the fully diluted equity percentage held.

	Year of first direct investment	Net investment value as at 1 April 2023 £'000	Net cash invested year to 31 March 2024 £'000	Investment realisation year to 31 March 2024 £'000	Realised gain year to 31 March 2024 £'000	Fair value movement year to 31 March 2024 £'000	Net investment value as at 31 March 2024 £'000	Equity percentage held as at 31 March 2024 %
Voxpopme Ltd	2018	11,015	861	–	–	3,973	15,849	20.4
Netacea Group Ltd	2022	11,693	2,696	–	–	272	14,661	34.2
Warwick Acoustics Ltd	2014	9,695	2,011	–	–	228	11,934	37.3
Medherant Ltd	2016	10,934	–	–	–	–	10,934	33.3
VirtTrade Ltd *	2015	10,082	2,080	–	–	(1,939)	10,223	61.4
Invincibles Studio Ltd	2015	8,697	–	–	–	(130)	8,567	35.5
Locate Bio Ltd	2018	4,858	2,500	–	–	479	7,837	20.1
Eyoto Group Ltd	2017	5,487	3,977	–	–	(2,322)	7,142	24.7
Ton UK Ltd **	2015	5,382	746	–	–	481	6,609	40.4
Aonic Founder SCS	2023	–	–	3,784	–	–	3,784	0.0
Axis Spine Technologies Ltd	2022	3,000	–	–	–	–	3,000	9.4
Tozaro Ltd ***	2020	1,449	1,205	–	–	80	2,734	11.9
Pimberly Ltd	2021	1,375	–	–	–	1,237	2,612	4.9
sureCore Ltd	2016	2,417	–	–	–	(1)	2,416	22.0
Forensic Analytics Ltd	2021	1,750	–	–	–	514	2,264	7.4
Nova Pangaea (Holdings) Ltd	2022	2,250	–	–	–	–	2,250	0.0
MyHealthChecked PLC	2016	969	–	–	–	(187)	782	13.1
Uniphy Ltd	2022	550	40	–	–	137	727	3.9
Artesian Solutions Ltd	2023	–	63	–	–	476	539	0.8
Sherlock Biosciences Inc	2023	347	–	–	–	(7)	340	0.3
nDreams Ltd	2014	25,761	–	(30,211)	4,450	–	–	0.0
Impression Technologies Ltd	2015	15,260	3,298	–	–	(18,558)	–	65.1
Other direct investments	n/a	3,579	149	–	–	(2,071)	1,657	n/a
Total		**136,550**	**19,626**	**(26,427)**	**4,450**	**(17,338)**	**116,861**	**n/a**

* Trading as Avid Games.
** Trading as Intelligent Positioning.
*** Formerly MIP Discovery Limited, prior to a change in registered name to Tozaro Limited in June 2024.

As at 31 March 2024, the fair value of our direct investment portfolio was £116.9million (2023: £136.6million), with a net £19.6million invested during the year. As a whole, the year saw positive fair value movements of £7.9million across 10 assets offset by downward movements of £25.2million on eight assets, giving a net fair value decrease of £17.3million.

Significant upward movements in Voxpopme Limited, resulting from the structuring of April 2023's funding round, and Pimberly Limited, alongside smaller uplifts in the software businesses Forensic Analytics Limited ("Forensic Analytics") and Intelligent Positioning Limited, were offset principally by Impression Technologies Limited ("Impression Technologies"), Eyoto Limited ("Eyoto"), VirtTrade Limited ("VirtTrade") and Akamis Bio Limited ("Akamis Bio").

Investment discipline, support and strategy

Having supported Impression Technologies for a decade in both our funds and balance sheet, at the end of May 2024 we made the very difficult decision to cease further material financial support. Mercia had reduced its direct investment carrying value for Impression Technologies at the time of its interim results, reflecting increased uncertainty following a sale process which did not ultimately succeed. Since that time, as announced, Impression Technologies had continued to explore options including further funding or a sale. Ultimately however, no successful new external funding or a sale of Impression Technologies was achieved. Mercia therefore reduced the full remaining carrying value of Impression Technologies.

Eyoto, in consultation with the US Food and Drug Administration ("FDA") for its slit lamp product approval, now faces delays due to additional trials, so has shifted its focus to Europe where approval is already secured. Whilst we continue to provide financial and operational support, we have recognised this setback through a reduction in the carrying value of our investment. VirtTrade has experienced slower growth than planned in its CUE game, also reducing its enterprise value as industry multiples have stagnated. Akamis Bio, now included outside of the top 20, predominantly accounts for the remainder of the downward movement following an indicative funding round which significantly reduces the value of Mercia's minority equity holding.

Cybersecurity firms like Forensic Analytics, which support UK police investigations and Netacea Limited, specialising in automated attack detection and mitigation, are making commercial progress as they adapt to and counter rising AI-related threats. Meanwhile, in the Life Sciences sector, promising developments continue. Medherant's innovative testosterone patch for menopausal women is moving forward. The company has also signed a development partnership with Bayer. Locate Bio, benefiting from a £9.0million investment in early 2024, is showing success in its early clinical trials. Additionally, Warwick Acoustics has broken new ground, securing its first automotive contract for production in 2025 and is progressing multiple proof-of-concept projects with leading automotive OEMs.

In the year, we paused on adding new companies to our direct investment portfolio, whilst also ensuring that we retain capacity to continue supporting our existing portfolio companies on their journey to exit across the next three years.

Progress through strategic sales

The notable sale of nDreams Limited ("nDreams") in November 2023, having transacted at a 17.3% uplift to the 31 March 2023 carrying value, returned £26.4million of cash to the Group's balance sheet. This transaction not only returned substantial cash but also allowed us to maintain a direct interest in the ongoing development of nDreams and the augmented reality ("AR")/Virtual Reality ("VR") market, with £3.8million of the £30.2million total consideration invested into the pan-European Aonic group. This sale was just one of the realisation events in the year that contributed to total realisation proceeds of c.£93million across our funds and balance sheet.

Investment overview – managed funds

During the year we invested c.£227million (2023: c.£144million) across the funds which we manage, into 155 businesses including 75 new companies.

Asset class	FuM 31 March 2024 £'m	Companies in portfolio No.	Amount invested £'m	Company exits No.
EIS	99	81	28	4
Regional venture	458	89	37	10
VCT	356	58	45	4
Debt	687	287	116	26
Private equity	30	5	1	2
Totals	**1,630**	**520**	**227**	**46**

Strengthening our position as one of the UK’s most active investors

Mercia Ventures has reinforced its position as one of the leading venture capital firms in the UK. The basis of our success over the past year has been our ability to secure and expand the regional investment mandates from the BBB, additional NEVF funds plus new funds raised by our Northern VCTs and the EIS team. With record levels of capital raised by UK VCT and EIS managers in previous years, we noted that entry valuations in the pre-series A space remained competitive throughout the year. At Mercia, we leverage our predominantly regionally based investment staff to source new deals and maintain a competitive edge against other funders. Our network of over 1,000 successful non-executive directors (“NEDs”) and proven entrepreneurs provide good quality deal flow and critical insight, which is helpful in winning mandates in competitive situations.

Early-stage investment

Geographically positioned to secure top-tier, early-stage venture deals across the regions, the new BBB mandates permit a wide range of funding solutions that include ‘cash out’ components for high-growth businesses across the UK regions. These mandates provide a secure pool of capital for early-stage investments over the next five years across these regions. Our focus on both capital deployment and value creation enables us to attract businesses seeking a sustained partnership across multiple funding rounds. We aim to build a balanced portfolio for our investors that range from start-ups, including management breakouts such as Fourteen IP Limited and Secure Empty Property Limited, to businesses experiencing profitable growth phases, such as Azzure IT Limited. We also focus on generating returns for our EIS investors by investing in early and expansion-stage businesses like Sheffield-based Sitehop Limited and Liverpool-based Ulemco Limited, across the UK.

Our Early Stage Venture (“ESV”) team deployed c.£65million during the year, c.120% of target, highlighting an outstanding team effort given that it marks the first year of operations for ESV within Mercia Ventures. Furthermore, this was achieved in a year of transition with the ending of the five-year investment period of the first generation BBB regional funds, and the beginning of the five-year investment period for the second-generation programme.

Scaleup investment

In companies seeking later-stage venture capital, we invested c.£45million on behalf of the Northern VCTs. Given the economic uncertainties, our team maintained a cautious approach to new investments, emphasising disciplined entry pricing. From a fundraising perspective, the Northern VCTs raised £60.0million, matching the largest fundraise ever by the Northern VCTs, with shares allotted in December 2023 and April 2024.

During the year, we also enhanced our investee partnership model, known as Nucleus, which focuses on four key areas; talent acquisition, specialist expertise introduction, growth partnership and expertise sharing across our portfolio. In doing so, our focus remains on portfolio performance and value creation. The successful Evotix Limited exit (£35.7million at a 4.6x return) by the Northern VCTs, demonstrates Mercia’s ability to foster significant returns on later-stage investments.

Locate Bio:

Fuelling innovation through strategic partnership

Mercia has been instrumental in Locate Bio's journey from a university spin-out to a leader in its field. This partnership has supported Locate Bio through critical stages including clinical trials and significant fundraising rounds.

Locate Bio, under the leadership of CEO John von Benecke, has benefited from our investments. Starting with investment from our managed funds, the relationship evolved in October 2018 with a direct investment from our balance sheet. This was followed by a £2.0million investment in May 2019, leading a £10.0million syndicate round in September 2021 and most recently, a £2.5million contribution to an £8.4million syndicated funding round in March.

John emphasises that Mercia's impact extends beyond financial support, highlighting the importance of sustained engagement and the invaluable transfer of knowledge. This partnership exemplifies a collaborative journey marked by shared expertise and enduring support.

Our involvement in Locate Bio's growth underscores the commitment to fostering innovation in the high-tech sector. By investing in Locate Bio, we demonstrate our dedication to nurturing innovative solutions and advancing technological progress.

Supporting the UK's small business community amidst economic shifts

The past 12 months have posed significant challenges for small businesses across the UK. Although the COVID pandemic has subsided, its lingering effects are still being felt, with many businesses grappling with high levels of debt, high interest rates and cost inflation.

Demand for growth capital has been subdued, with the majority of businesses focusing on internal challenges such as debt reduction, margin improvement and overhead cuts rather than on growth or acquisitions. Many funding requests are now to support cash flow or working capital as opposed to expansion projects. These challenges are further compounded as traditional lenders continue to consolidate their centralised models, including the closure by banks of high street branches and an increased aversion to SMEs and more generally, risk.

Mercia is very active in providing transactional debt such as for management buyouts and acquisitions. During the pandemic many of these transactions were paused, however in 2023 we experienced a strong inflow of new lending opportunities as a wave of pent-up deals finally came to market. More latterly, deal flow has returned to more 'normal' levels and although businesses remain focused on internal challenges, there will always be a level of exits driven by retiring shareholders or other events.

Mercia's Debt funds have consistently filled the funding gap for viable businesses across the UK. During the last financial year, our response to market conditions and support for companies with strong financial controls and sustainable business models have solidified our position. Despite a challenging environment, our Northern Debt team completed 50 deals, a decrease from the 82 deals in 2023, with total lending down to £17.3million from £34.1million. This reduction not only reflects a reduced demand from SMEs but also a more cautious lending approach. It also coincides with the transition from NPIF to NPIF II at the end of December 2023.

It has been a very successful year for FDC, achieving its highest revenue to date, driven by an experienced and talented leadership team.

The integration into Mercia has been highly successful, thanks to the cultural compatibility between the two organisations. FDC's strengthened relationship with Mercia's Northern Debt team has been advantageous in fostering mutual deal referrals. Similarly, Mercia's track record and expertise has supported FDC in securing the MEIF II Debt WM mandate. FDC can already offer up to £7.5million in growth capital nationally and up to £20million in property finance across the West Midlands region through its existing mandates. Winning the new BBB mandate has added to that capability, with FDC now providing essential debt finance solutions ranging from £250,000 to £2.0million throughout the region.

During the year, FDC's assets under management ("AuM") grew from c.£441million to over £540million. This excellent growth is a testament to FDC's reputation and track record for delivering strong results for its fund investors.

Higher interest rates have presented a significant challenge for SMEs during the past 12 months; however, FDC's property team have continued to support known, well capitalised and capable developers on both residential and commercial development transactions. Market and occupier confidence continues to improve and the team are in the process of raising additional new funds. The property portfolio remains in good shape, generating strong investor returns.

With the securing of both the MEIF II Debt West and NPIF II Y&H Debt mandates totalling £97.0million, Mercia can continue to deliver these key UK Government schemes across the regions. Our ability to act swiftly, leveraging both government-backed schemes and privately raised funds, positions us as a leading SME lender in the regional debt market. With a loan range that spans from £250,000 to £20million, we are optimistic for increased activity in the coming year.

mercia PE

Pathways to growth

Mercia identifies high-quality small businesses by their ambitious, motivated management teams who possess a sense of ownership and responsibility. Building a successful small company demands unwavering focus and Mercia values the opportunity to align with such committed individuals.

Despite ongoing high interest rates leading to lower levels of gearing and an uncertain economic environment leading to lower deal volumes across the lower mid-market PE market, Mercia has remained proactive both in its existing EV Growth Fund II ("EVGII") and FDC's own growth fund. During the last year Mercia's focus has been on improving performance within our portfolios. This approach was successfully demonstrated with two exits in the year – the 1.6x exit from ParkCloud Holdings Limited returning £7.2million and the 2.5x sale back to management of Winder Power Limited, returning £3.2million. These successful exits enabled one of our legacy funds to close with an overall 3x return on its portfolio.

As EVGII has now concluded its investment phase, the focus shifts towards collaborating with our portfolio companies to maximise value, with further cash returns anticipated in the near future.

Summary and look forward

Following our successful fundraising activities and realisations, Mercia now possesses over £660million of managed fund capital to deploy, setting a solid foundation for increased equity investment and lending activities in this new financial year. We've become a leading provider of capital across the UK, supporting innovative businesses with venture capital, debt and private equity.

Whilst I'm disappointed that we have fallen short in achieving the average £20.0million per annum profit before tax element of our 'Mercia 20:20' vision, this has been partly due to the uncertain macro-economic and subdued public and private markets environment we still find ourselves in. Our realisations over the past three years have however exceeded £0.4billion across our funds and balance sheet, a significant accomplishment. I reiterate that our portfolios are well run and contain many resilient and promising assets. I remain confident that we are positioned to deliver significant value over the medium term for both our fund investors and shareholders.

Looking ahead, two prominent themes are emerging in business funding. Investors, especially institutional ones, are increasingly seeking to generate not only robust financial returns but also meaningful societal impact. Concurrently, businesses are gravitating towards innovative, 'hybrid' funding models that offer the necessary flexibility, support and motivation to prosper. As Mercia grows, it will continue with its mission as a partner known for impactful and adaptable funding solutions.

I would like to thank all the team members of #OneMercia who played key roles in our record fundraising year. I am also pleased that all our equity investing and lending teams have such liquidity to be able to make new investments from our funds in the years to come, together with continuing to support existing ones where merited. Their efforts over many years have helped Mercia become the go-to investor for SMEs across the UK.

Julian Viggars
Chief Investment Officer

Strong progress

Martin Glanfield
Chief Financial Officer

Overall financial performance

Notwithstanding the inflationary challenges affecting the UK economy in general and more specifically the financial services sector during Mercia's financial year to 31 March 2024, the Group was able to increase its EBITDA compared with the prior year. This was due in part to the continuing positive performance of Frontier Development Capital Limited ("FDC").

A significant increase in bank interest receivable has also enabled the Group to report a higher adjusted operating profit than the prior year.

Proposed final dividend

The Board adopted Mercia's progressive dividend policy in December 2020 and since then has declared and paid interim and final dividends totalling 2.41 pence per share, equating to dividend payments to shareholders of £10.7million.

Given the Group's twin sources of profitability and cash inflow, being regionally focused proactive specialist asset management, plus direct investment with 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 continuing intention to grow total dividends year on year.

The continuing positive overall trajectory of the Group has enabled Mercia's Board to recommend a proposed final dividend of 0.55 pence per share (2023: 0.53 pence per share). If approved by shareholders at the Annual General Meeting in September 2024, the total dividend for the year will be 0.90 pence per share (2023: 0.86 pence per share), a year-on-year increase of c.5% (2023: increase of 7.5%).

If approved by shareholders, the final dividend will be paid on 1 November 2024 to shareholders on the register at the close of business on 4 October 2024.

Share buyback

Although recent share buybacks in the specialist asset management sector have done little to positively affect share price performance (if at all) and a resultant reduction in discounts to net asset value, Mercia has always said that if it enjoyed a significant cash realisation it would consider how best to distribute a proportion of those proceeds to shareholders. Mercia's realisation of its direct investment in nDreams Limited in November 2023, significantly increased the Group's cash position. Given that the Group also has no debt, Mercia announced an up to £5.0million share buyback programme at the time of its interim results at the end of November 2023. As at 31 March 2024, Mercia had bought back 10,379,708 shares into Treasury at an average overall cost per share of 30.8p, and at a total cost of £3,194,000. The buyback concluded on 29 May 2024, with 15,706,088 shares bought back in total at an average price of 31.8 pence per share.

Alternative performance measures ("APM")

The Directors believe that the reporting of both EBITDA and adjusted operating profit assist in providing insightful measures of operating performance for businesses such as Mercia and are APMs of interest to both current and potential shareholders.

EBITDA is defined as operating (loss)/profit before exceptional item, depreciation, realised gains/(losses) on the sale of direct investments, fair value movement in direct investments, share-based payments charge, amortisation of intangible assets and movement in fair value of deferred consideration.

Adjusted operating profit is defined as EBITDA plus net finance income.

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Revenue	**30,434**	25,881
Administrative expenses	**(24,897)**	(20,692)
EBITDA[1]	**5,537**	5,189
Net finance income	**4,160**	2,397
Adjusted operating profit[1]	**9,697**	7,586
Depreciation	**(489)**	(309)
Net finance income	**(4,160)**	(2,397)
Realised gain/(loss) on sale of direct investments	**4,450**	(849)
Fair value movement in direct investments	**(17,338)**	1,201
Share-based payments charge	**(1,002)**	(1,049)
Amortisation of intangible assets	**(2,989)**	(2,337)
Movement in fair value of deferred consideration	**(540)**	(1,462)
Operating (loss)/profit before exceptional item	**(12,371)**	384
Exceptional item	**–**	(372)
Operating (loss)/profit	**(12,371)**	12
Net finance income	**4,160**	2,397
(Loss)/profit before taxation	**(8,211)**	2,409
Taxation	**626**	427
(Loss)/profit and total comprehensive (expense)/income	**(7,585)**	2,836

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 2024		
	IFRS as reported £'000	Depreciation £'000	APM basis[1] £'000
Administrative expenses	**(25,386)**	**489**	**(24,897)**
Depreciation	**–**	**(489)**	**(489)**

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

Revenue

Revenue increased 17.6% to £30,434,000 (2023: £25,881,000) and comprised fund management related fees, initial management fees from investment rounds, arrangement fees from loans, investment director monitoring fees, sundry business services income and VCT share offer fees.

Administrative expenses[1]

Administrative expenses, excluding depreciation, increased 20.3% to £24,897,000 (2023: £20,692,000) and comprised predominantly staff-related, office, marketing, professional adviser and VCT share offer-related costs.

Mercia anticipates that the financial benefits of operational leverage will be realised as its funds under management increase, by both its future organic and inorganic initiatives.

EBITDA

EBITDA increased 6.7% to £5,537,000 (2023: £5,189,000), equating to an EBITDA margin of 18.2% (2023: 20.0%). The Group has therefore largely been able to offset the inflationary impact during the financial year on its cost base.

Net finance income

Total gross finance income of £4,216,000 (2023: £2,428,000) arose largely from a material increase in interest receivable on cash deposits (as shown in note 9 of the consolidated financial statements) following Bank of England base rate increases during the year, together with the crystallisation of convertible loan interest within the direct investment portfolio. Finance costs of £56,000 (2023: £31,000) comprised interest payable on office leases and the Group's staff electric car scheme.

Fair value movement in direct investments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of direct investments*	**7,877**	11,324
Unrealised losses on the revaluation of direct investments*	**(25,215)**	(10,123)
Net unrealised fair value movements	**(17,338)**	1,201

* Excluding the impact of the demerger of Netacea Limited from Intechnica Holdings Limited in year ended 31 March 2023.

The net unrealised fair value movement in direct investments resulted in a £17,338,000 decrease (2023: £1,201,000 increase) and as at 31 March 2024, the fair value of the Group's direct investment portfolio was £116,861,000 (2023: £136,550,000).

Unrealised fair value gains arose in 10 (2023: five*) of the Group's direct investments. The largest unrealised fair value gain was in respect of Voxpopme Limited, which accounted for £3,973,000 of the total (2023: £4,145,000 unrealised fair value gain in respect of VirtTrade Limited).

There were eight (2023: six*) unrealised fair value decreases, the largest being £18,558,000 which arose in respect of Impression Technologies Limited ("Impression Technologies") (2023: £3,511,000 unrealised fair value decrease in Netacea Group). As more fully set out in the Chief Investment Officer's review, Mercia ceased further material investment into Impression Technologies in May 2024, resulting in the full impairment of the Group's direct investment fair value as at 31 March 2024.

Share-based payments charge

The £1,002,000 non-cash charge (2023: £1,049,000) arises from the total number of issued and vested share options held by employees throughout the Group, ranging from 28 January 2020 to 31 March 2024.

Amortisation of intangible assets

The amortisation charge for the period of £2,989,000 (2023: £2,337,000) represents amortisation of the acquired intangible assets of FDC and the VCT fund management business.

Movement in fair value of deferred consideration

The purchase price of FDC in December 2022 included an element of contingent deferred consideration which is subject to a number of targets being met. Movement in the fair value of this contingent deferred consideration during the year to 31 March 2024 has resulted in a charge to the consolidated statement of comprehensive income of £540,000 (2023: £131,000).

In the prior year to 31 March 2023, a charge to the consolidated statement of comprehensive income of £1,331,000 represented the unwinding of the discount on the final deferred consideration payment relating to the acquisition of the VCT fund management business in December 2019. This was settled in cash in December 2022 and new Mercia Asset Management PLC Ordinary shares issued in January 2023.

Taxation
The components of the Group's tax credit are shown in note 11 of the consolidated financial statements. The overall tax credit for the year comprises the continued unwinding of the deferred tax liability in respect of the intangible assets arising on the acquisition of FDC and the VCT fund management business, partially offset by a corporation tax charge on taxable profits.

Loss and total comprehensive expense for the year
The adjusted operating profit plus the realised gain, less the net fair value decrease for the year and other non-cash charges, led to a consolidated total comprehensive expense of £7,585,000 (2023: income of £2,836,000). This has resulted in a basic loss per Ordinary share of (1.71) pence (2023: basic earnings per Ordinary share of 0.64 pence).

Summarised statement of financial position

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Goodwill and intangible assets	**36,296**	39,285
Direct investment portfolio	**116,861**	136,550
Other non-current assets, trade and other receivables	**4,810**	4,751
Cash and cash equivalents	**46,940**	37,834
Total assets	**204,907**	218,420
Trade, other payables and lease liabilities	**(9,595)**	(7,720)
Deferred consideration	**(2,279)**	(3,239)
Deferred taxation	**(3,792)**	(4,540)
Total liabilities	**(15,666)**	(15,499)
Net assets	**189,241**	202,921
Net assets per share (pence) **	**43.4p**	45.4p

** 436,319,815 Ordinary shares, excluding those held in treasury, has been used as the denominator for calculating net assets per share as at 31 March 2024. 446,581,202 Ordinary shares were in issue as at 31 March 2023 and therefore used as the denominator for calculating the comparative net assets per share.

Intangible assets
The Group's intangible assets consist of goodwill and the intangible assets recognised on the acquisition of FDC and the VCT fund management business.

Direct investment portfolio
During the year, Mercia's direct investment portfolio reduced from £136,550,000 as at 1 April 2023 (2023: £119,558,000 as at 1 April 2022) to £116,861,000 as at 31 March 2024 (2023: £136,550,000 as at 31 March 2023), a c.14% decrease (2023: c.14% increase).

The Group invested £19,626,000 net (2023: £20,653,000 net) into 11 existing direct investments (2023: 10 existing and three new direct investments), with the top 20 direct investments representing 98.6% of the total direct investment portfolio value (2023: 98.4%).

Cash, cash equivalents and short-term liquidity investments

At the year end, Mercia had cash and cash equivalents totalling £46,940,000 (2023: £37,834,000).

The Group continues to have limited working capital needs due to the nature of its business and during the year cash generated from operating activities totalled £7,872,000 (2023: £3,019,000).

As at 31 March 2024, the Group's cash and cash equivalents were spread across four leading United Kingdom banks and a BlackRock Sterling money market fund, earning an average overall yield of c.5%.

The summarised movements in the Group's cash and cash equivalents during the year are shown below.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening cash and cash equivalents	**37,555**	56,049
Cash generated from operating activities	**7,872**	3,019
Corporation tax paid	**(788)**	(1,819)
Net cash generated from/(used in) direct investment activities	**9,360**	(14,930)
Acquisition of Frontier Development Capital Limited	**–**	(6,951)
Cash acquired with Frontier Development Capital Limited	**–**	2,882
Deferred consideration paid in respect of acquisitions	**(1,500)**	(2,100)
Cash inflow from other investing activities	**1,991**	5,327
Repurchase of own shares into treasury	**(3,194)**	–
Net cash used in financing activities	**(4,356)**	(3,922)
Closing cash and cash equivalents	**46,940**	37,555

Outlook

Once again, these results demonstrate Mercia's robust business fundamentals, despite the significant salary and general inflation experienced in the asset management sector during the financial year, and the impact of its decision to cease further investment into Impression Technologies.

Set against another year of subdued inflows by the asset management sector, Mercia achieved record fund inflows of c.£562million during the year and increased revenues, EBITDA, adjusted operating profit, dividends and cash.

Whilst always keeping a careful eye on the horizon, Mercia's cautious optimism at the time of its interim results in November 2023 has been borne out by significant new fund mandate wins and successful VCT and EIS fundraises. Taken together, they point to the potential for further positive progress in the current financial year.

With new long-term fund management contracts secured, Mercia has never been financially stronger and for this we remain grateful to our excellent staff for their continuing efforts and our many long-term supportive fund investors and shareholders.

Martin Glanfield
Chief Financial Officer

Monitoring and managing risk

Mike Vinton
Group Risk & Compliance Director

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 48 (2023: 45) 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 together with the potential severity of impact, likelihood of occurrence and mitigating actions.

An assessment of the effectiveness of mitigating controls determines the residual risk score for each identified risk and any further actions required for those outside our risk tolerance.

Mercia's risk dashboard is drawn from the residual 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.

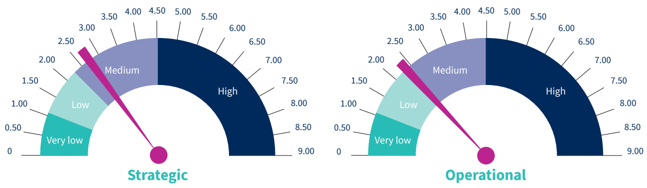
The Group's risk monitoring framework has remained effective during the financial year. The Board monitors and evaluates the key risks to ensure that appropriate measures are in place to minimise the likely occurrence and impact of those risks identified, should they materialise. There may be additional 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 alternative asset management sector 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.

External Strategic Risk has fallen during the year as a result of a reduction in geopolitical risk, driven by the conflicts in Ukraine and Gaza having not had a material impact on UK-based investee companies. Other notable events which reduced External Strategic Risk were the successful tenders to manage five new regional fund mandates for the British Business Bank ("BBB") over the next 10 years, the exit of Mercia's investment in nDreams Limited ("nDreams") demonstrating good market realisation timing, and enhancements made to the investment process, with a focus on early-stage investments.

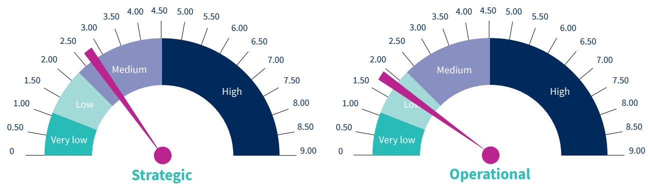
Risks

Dashboards as at 31 March 2024

External

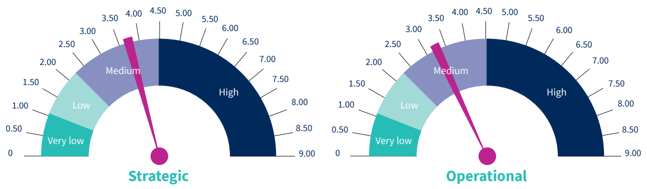


Internal

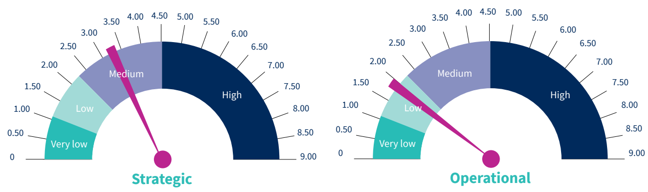


Dashboards as at 31 March 2023

External



Internal



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, economic risks and inflationary pressures.

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

The overall risk posed by External Operational factors has reduced, in part due to interest rate and inflation environments becoming less stressed than last year, led by inflation rates starting to fall. This reduced several of the risk scores, both on portfolio investee companies (including valuation risk) and risks to Group entities. Additionally, the impact of supply chain risks initially feared last year, have not manifested themselves in practice for portfolio investee companies. Finally, FCA-regulated subsidiary, Mercia Fund Management Limited ("MFM"), has removed the complex activities falling under the FCA's Client Assets Sourcebook.

Internal Strategic Risk has also reduced, principally due to recruitment at the senior management level. An experienced Chief Operating Officer joined in the year, with enhancements made to the Executive Committee to ensure that strategic focus and direction is appropriately communicated across the Group.

The risk posed by Internal Operational factors has lessened slightly over the year due to structures and the governance required for the FCA's Senior Managers and Certification Regime being further embedded into operational activities, enhancements to the treasury policy and our ESG project demonstrating good progress. Arrangements to manage conflicts of interest have increased in complexity following the award of the new BBB mandates, with enhancements having been made to policies and processes to address this risk.

We have continued to maintain a high focus on risks such as cybercrime given the increased potential for cyberattacks, and we continue to invest heavily in cyber defence and detection software tools. This threat is one that will be of an ongoing nature, particularly with respect to the financial services industry.

We maintain focus on regulatory risk and, following our Senior Independent Director being appointed as the Consumer Duty Champion, the identification and enhancement of management information ("MI") to assist with fulfilment of the new Consumer Duty requirements has been a key focus. Additionally, the Vulnerable Customer Policy has been introduced in the year. Work has also been undertaken to prepare for MFM becoming a 'full scope firm' under the Alternative Investment Fund Managers Directive ("AIFMD"), due to increased levels of funds under management. As part of this preparation, initial due diligence on potential depositary providers has taken place. This will be a key focus for the remainder of 2024. We have maintained a Remuneration Code in compliance with FCA requirements.

We continue to monitor the risk of failure to fully embrace the ESG agenda as set out on pages 14 and 15. We also continue to monitor climate change and assess our carbon footprint, including possible measures to reduce it. We have once again offset our footprint this year in order to be carbon neutral across the Group.

Emerging risks continue to be identified, assessed and monitored. One such risk is the increased use of artificial intelligence and the threats that it may bring to certain investment sectors, whilst being cognisant of the potential opportunities in others.

During the year, I joined Mercia as the new Group Risk & Compliance Director to lead the function and add to the resources available. This demonstrates the emphasis that Mercia places on remaining compliant with the FCA rules, appropriately managing risks and continuing to do the right thing.

I report on the monitoring of current risks, 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. Enhancements to the risk identification and mitigation process are scheduled for the remainder of 2024, with the objective of further embedding it within day-to-day activities.

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

Mike Vinton
Group Risk & Compliance Director

Principal risks

Risk	Possible consequences	Mitigation
Breaches of the Group's digital security, through cyberattacks or a failure of the Group's digital infrastructure, could result in the loss of commercially sensitive data and/or create substantial business disruption.	Cybersecurity 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 cybersecurity processes with its outsourced IT provider on a regular basis and continues to invest in resources to enhance its cyber defences and improve network monitoring to minimise the impact of any 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 in place enabling continuity via remote working. The Group continues to work with its cybersecurity consultants to periodically test its cyber defences. Regular testing is conducted through using fake phishing/spam emails to test staff's 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. Cyber awareness training is given to all new staff.
Risk of reputational damage/financial loss as a result of an accusation against Mercia by a third party, or wider industry reputational issues impacting Mercia. Also, a further consequence of an adverse event/crisis occurring such as a major cyberattack.	Loss of confidence in Mercia due to an accusation attracting publicity, whether or not justified, could have an immediate impact on share price, investors, investee companies, staff and suppliers, and could quickly cause reputational damage.	Mercia's culture and governance structures mean that Mercia always seeks to conduct itself in an appropriate manner towards all of its stakeholders. Any issues are elevated to a member of the experienced Executive team to proactively manage. An open dialogue is maintained with all Non-executive Directors, advisers and regulators. Mercia also has a strong senior manager leadership team below the Executive level.

Risk	Possible consequences	Mitigation
The risk of reputational or operational damage due to third-party services not being provided to the standard required or being withdrawn.	Poor performance by key third-party service providers may lead to poor efficiency, disruption and potentially costly remedial actions needing to be taken. There are inherent risks associated with the selection and ongoing services of all third-party suppliers.	Formal due diligence takes place during the selection process for third-party providers. This results in providers including software, hardware and other office-related suppliers being chosen on the basis of their service reputation and the ability to deliver the level of service required. Price is not an overriding factor. The quality of their services is monitored utilising formal service level agreements (with relevant key performance indicators ("KPI") and management information ("MI") provision) and regular service meetings.
Risk to direct portfolio valuations given the stock market correction in the value of small capitalisation businesses, including media coverage of large 'down-round' valuations in some large high-profile venture-backed businesses.	If comparable valuation metrics fall, it may lead to valuation reductions in the fair value of the direct portfolio, with a consequential knock-on effect on Mercia's reported results and reputation. Increased probability of portfolio valuation corrections. Market corrections may also impact fund valuations.	Mercia's valuation methodologies have always been at the cautious end of market multiples. The portfolio is generally growing well, helping to offset any softening in tangential market multiples. As with all venture portfolios however, it is almost inevitable that some will fail, impacting Mercia's short-term reported results.
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.	Enterprise Investment Scheme ("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. If so, 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, a confirmation report is received from external VCT tax advisers. Ongoing monitoring of all VCT investments ensures that 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.

Risk	Possible consequences	Mitigation
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; and (ii) be required to appoint a replacement UK AIFM.	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 monitors its position, as regulated by the AIFMD, in respect of its quantum of funds under management. The Board receives regular reports from the Group Risk & Compliance Director as to regulatory developments and any possible impact on the Group, including any new regulatory requirements. The Group ensures that it employs adequate resources 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. Compliance undertakes monitoring reviews of first line activities and also undertakes horizon scanning so that regulatory developments are successfully identified with necessary actions implemented. Mercia also has a whistleblowing policy and reporting structure in place. No whistleblowing reports have been received in the year.
The risk of reputational damage due to third-party custodian services not being provided as required, or being withdrawn, or our due diligence on a third party being inadequate.	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. Regular reviews of performance take place utilising appropriate MI and KPIs. 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.

Risk	Possible consequences	Mitigation
Inherently high failure rate of early stage companies leads to loss of revenue from investees and potential reputational risk.	The majority of the direct investment portfolio comprises businesses that are at a relatively early stage in their development, which carries inherent risks including technical and commercial risks. Typically, such companies are developing new or disrupting existing technologies and breaking new ground commercially, which carries inherent risks of failure.	Due diligence undertaken prior to investment and ongoing means that Mercia is already familiar with the business, commercial prospects, management team and risks. Experienced investment directors monitor company performance. Mercia's increased capital available for funding gives investee companies an optimal chance of success, although that success can never be guaranteed.
Proceeds from a trade sale or Initial Public Offering ("IPO") of direct investments may vary substantially from year to year, affecting liquidity levels.	Lack of investment realisation opportunities may impact sentiment towards the direct portfolio, Mercia's share price and cash flows. The market for IPO or trade sales is inherently uncertain and subject to external, economic and market forces. Contraction in the market for external funding sources and syndication, and lack of activity in the mergers and acquisitions markets impact the prospects for exits across the portfolio.	Rigorous portfolio management exists to ensure disposal of shareholdings only when the terms, timing and market conditions are acceptable. Mercia's income streams from fund management fees reduce reliance on disposal proceeds. Mercia has paused all investment into new direct investments, increasing the length of the Group's cash runway.
Investment appetite may not meet future funding requirements for existing portfolio companies, adversely impacting the value of Mercia's equity holdings.	It may take longer for Mercia to realise value from equity holdings in portfolio companies which have significant funding requirements, or to syndicate future funding rounds. There is an inherent balance to be monitored between meeting further funding needs and operating on a fast-fail basis, taking into account long-term value drivers and prospects for further realisation.	Investment decisions consider the adequacy of ongoing liquidity levels. Funding rounds are often facilitated by maintaining good relationships with co-investors. Mercia is investing in attractive sectors increasing the likelihood of future co-investment, although venture portfolio failures are still likely to occur periodically.

Risk	Possible consequences	Mitigation
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, most 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 underserved regions of the UK, where competition for investing in new technology companies is less fierce. Companies in which the Group equity 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, who have recently allocated substantial new funds to Mercia for management over the next 10 years. Portfolio company competitiveness is monitored, and additional support and expertise is provided by 'Mercia Nucleus' when required.
The risk that conflicts of interest are not properly identified and managed, leading to reputational damage, loss of mandates and loss of investment.	The presence of conflicts of interest is inherent in our business model, deriving from the range of different fund management mandates and direct investment activities undertaken. There is potential for reputational risk arising from a failure to appropriately manage conflicts. Reputational damage could lead to an inability to attract new mandates, 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. Enhancements have been made to the allocation policy to address further potential conflicts created by the new mandates. 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 Risk & Compliance Director. If required, the Conflicts Committee is convened to ensure that any particularly complex conflicts are appropriately managed. This Committee is chaired by Dr Jonathan Pell, the Group's Audit Committee Chair.

Risk	Possible consequences	Mitigation
The majority of the direct investment portfolio comprises businesses at a relatively early stage in their development, and as a result, 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 elevated 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 sufficient 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 impact year end fair values and ultimate exit proceeds.	With the exception of Forensic Analytics Limited, all of the Group's current direct investment portfolio originated from the Group's fund management operations. Those funds have a fail-fast policy, which means early-stage businesses that 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, where syndication and investee company exit routes are subdued. The strength of the Group's financial position means that we have been able to provide a 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.
The value of the Group's direct investment portfolio may be dominated by a single or a 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.	The Group seeks to balance the direct 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, although investment failures may still occur periodically.

Events after the balance sheet date

As announced on 30 May 2024, the Group made the decision to cease further investment into Impression Technologies Limited and as a result, impaired the fair value of its investment as at 31 March 2024 to zero.

Approval

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

Dr Mark Payton
Chief Executive Officer
1 July 2024

Board of Directors

Right skills, right experience, right people

Dr Mark Payton

Chief Executive Officer

Date of appointment

December 2014

Experience

Mark has extensive investment and scale-up experience. Since co-founding Mercia, he has led the sales of Hybrid Systems Ltd (to Myotec) to create PsiOxus Therapeutics Ltd, Warwick Effect Polymers Ltd (to Polytherics Ltd) to create Abzena plc, Oxford Genetics Ltd (sold to WuXi AppTec) and led the founding investment in Allinea Software Ltd (sold to ARM). Prior to Mercia, Mark played a leading role within Oxford University Innovation ("OUI"), the technology transfer operation of the University of Oxford, spinning out BioAnalab Ltd (sold to Millipore), Oxford Immunotec Ltd (listed on NASDAQ), Oxitec Ltd (sold to Intrexon) and Natural Motion Ltd (sold to Zynga). Following his time at OUI, Mark was the vice president of corporate development at Oxxon Therapeutics Inc, prior to its sale to Oxford BioMedica plc.

Mark gained his PhD jointly between the University of Oxford and the University of London (King's College). Mark also has an MBA from the University of Warwick, is a Sainsbury Management Fellow for Life Sciences and was awarded the 2015 EY Entrepreneur of the Year (regional and national).

External appointments

None

Martin Glanfield

Chief Financial Officer

Date of appointment

December 2014

Experience

Martin has significant public and private markets business experience. He is a KPMG–qualified chartered accountant with more than 25 years' experience as chief financial officer of four listed, three private equity-backed and several 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 take 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.

As well as his CFO responsibilities, he also currently has overall responsibility for Mercia's legal, compliance, M&A and marketing activities. Martin also chairs Mercia's two lending subsidiaries which are currently managing c.£687million of Mercia's AuM. He led both teams which recently secured new British Business Bank sponsored managed funds debt contracts. He has an honours degree in business from Aston University and has 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 25 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 both the recent 2024 British Business Bank sponsored managed funds equity contracts, alongside the original 2017 awards, 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 the very successful Birmingham 2022 Games.

In October 2022, Ian became a non-executive director of Swing Fitness Ltd, a technology start up providing high quality gym equipment to communities in a simple and accessible way. More recently Ian acted as Chair of the Executive Steering Group of the Sport Accord Global Business and Sport Summit, hosted in Birmingham in April 2024. Ian has an MA in law from Cambridge University. He became Mercia's Chair on 2 July 2019.

Committees membership

Audit & Risk · Remuneration · Nomination · Committee Chair

Meetings

Attendance (Total 7)

Executive	
Dr Mark Payton	7
Martin Glanfield	7
Julian Viggars	6

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

Diane Seymour-Williams
Senior Independent Director

Date of appointment
November 2020

Experience
Diane has non-executive experience across the wealth and asset management sectors. She is currently a non-executive director of Patria Private Equity Trust plc, Praxis Group Ltd and SEI Investments (Europe) Ltd and a member of the Valuation Committee of Chrysalis Investments Ltd. 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 (formerly 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, more recently she 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 in 2000 a trust focused on investing in technology-led start-ups. In 2014, at the time of Mercia'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.

Ray is retiring at this year's AGM but will retain a keen interest in Mercia's continuing growth.

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

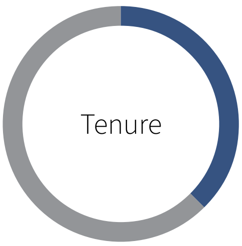
Experience
Caroline is Chief Executive of Gravita, a Top 30 accounting firm scaling rapidly through acquisitions. She is a serial entrepreneur who previously founded and sold businesses across professional services and software. Her businesses have won multiple awards and have been three-times listed in the Sunday Times Top 100 Best Small Companies to Work For.

Caroline writes a monthly column for The Times focused on small business and has a long-standing passion for supporting entrepreneurship and growth particularly in under-invested locations and groups. Caroline was previously an Independent Member of the Regional Growth Fund, on the Department for Business' Small Business Forum and National Council for Graduate Entrepreneurship.

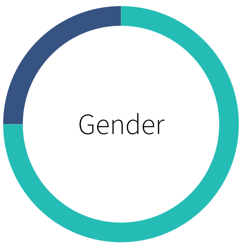
She served as one of the Prime Minister's Business Ambassadors for eight years, representing the UK, in the Professional and Business Services sector. Caroline was awarded an OBE for services to Business and Charity in the Queen's 90th Birthday Honours List in 2016.

She has an MEng in Engineering, Economics and Management from Oxford University. In 2024 she was elected an Honorary Fellow of St John's College, Oxford.

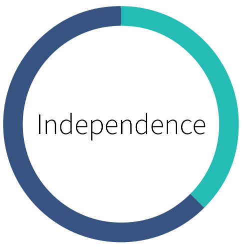
Board composition



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



Male Members	6
Female Members	2



Executive Members	3
Non-executive Members	5

Directors' report

Sarah-Louise Williams
Group General Counsel
& Company Secretary

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 2024.

Results and dividends

The statutory loss for the year was £7,585,000 (2023: profit of £2,836,000). An interim dividend of 0.35 pence per share was paid on 10 January 2024 at a cost of £1,561,000 (2023: 0.33 pence per share at a cost of £1,452,000). In accordance with the progressive dividend policy adopted by the Board, the Directors recommend the payment of a final dividend of 0.55 pence per share for the year ended 31 March 2024 (2023: 0.53 pence per share). If approved by shareholders at the Annual General Meeting ("2024 AGM"), the final dividend will be paid on 1 November 2024 to shareholders on the register on 4 October 2024.

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 41, 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 58.

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 32 to the consolidated financial statements.

Share capital and related matters

As at 31 March 2024, the Company's issued share capital was £4,363.19 divided into 436,319,815 Ordinary shares of £0.00001 each. The Company also held 10,359,708 Ordinary shares in treasury. Further details of the Company's issued share capital and rights attaching to the Company's shares are given in note 26 on page 90.

There are no restrictions on the size of a holding or on the transfer of shares, which are both governed by the provisions of the Articles of Association, prevailing legalisation and other relevant rules.

At the last AGM of the Company on 21 September 2023 ("2023 AGM"), the Directors were granted authority to allot Ordinary shares in the Company up to an aggregate nominal value of £446.58, representing 10% of the issued Ordinary capital of the Company as at 28 July 2023. The Directors were also granted authority at the 2023 AGM to allot or transfer equity securities out of treasury up to an aggregate nominal of value of £446.58 without regard to the pre-emption provisions provided in section 561(1) of the Companies Act 2006. Both authorities will expire on 26 September 2024. In the period to 31 March 2024, a total number of 118,321 shares have been allotted within these authorities (98,321 by share allotment and 20,000 issued from treasury), further details of which are given in note 26 on page 90 and note 28 on page 91. The Directors will seek to renew these authorities within the same parameters for a similar period at the 2024 AGM.

At the 2023 AGM, the Company was authorised by shareholder resolution to purchase up to 10% of its issued share capital as at 28 July 2023 within the minimum and maximum price boundaries set by that authority. This authority has been utilised during the year as part of the £5.0million share buyback announced by the Company on 28 November 2023. In the period to 31 March 2024, a total of 10,379,708 shares were bought back and subsequently held in treasury. Further information in relation to the buyback, which completed on 29 May 2024, is detailed in Chief Financial Officer's report on page 28. The Company will seek to renew this authority within the same parameters for a similar period at the 2024 AGM.

Substantial shareholdings

As at 31 March 2024, the Directors have been notified or are aware of the following holdings of significant shareholders in the Company (as defined in the AIM Rules):

	Number of Ordinary shares	Percentage %
Invesco	63,113,333	14.5
Fidelity	39,524,997	9.5
Forward Innovation Fund[1]	39,272,336	9.0
Ruffer LLP	25,740,000	5.9
Forward Nominees Ltd[1]	20,237,395	4.6
Chelverton Asset Management	16,000,000	3.7
GPIM	15,490,969	3.6
Blackrock	15,100,000	3.5
The Hargreaves No 11 Settlement	14,000,000	3.2
NFU Mutual Insurance Society	13,591,465	3.1
Columbia Threadneedle	13,202,826	3.0

1 Shareholdings connected to Ray Chamberlain.

Political donations

During the year ended 31 March 2024, the Group made no political donations (2023: £nil).

Employees

The Group employed an average of 138 (2023: 116) 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:

Sarah-Louise Williams
Company Secretary
1 July 2024

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

Sarah-Louise Williams

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 the profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and the Company's position and the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 1 July 2024 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 previous 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 Board adopted the new QCA Code, effective from 1 April 2024, on 26 March 2024.

The QCA Code sets out 10 corporate governance principles and requires the Group to publish certain related disclosures; these appear in this section of the Annual Report and on our website. This information is reviewed annually and the date of each review is noted on our website.

Our primary means of communicating our corporate governance structure is through our Annual Report and our website disclosures. When, on occasion, specific questions are raised by private individual shareholders and/or institutional investors on such matters, we engage directly with those shareholders, generally through either the Chief Executive Officer or the Chief Financial Officer. I also meet from time to time with our leading institutional investors and other shareholders 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 and surveys, 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 on topical subjects.

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 our new Chief Operating Officer, Jocelyne Bath, 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 or lends to. Consistent with our commitment to reduce our carbon emissions, Mercia continues its migration to communicate electronically with our shareholders. This year, we have reduced the number of annual reports to be printed by 60%.

Board composition

The Board considers that it contains a range of skills, knowledge, experience and backgrounds that are appropriate for the business. Furthermore, 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 42 and 43. Their membership of Committees is set out on pages 49 and 53.

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 has always considered that his independent judgement has not been compromised notwithstanding his interest in 14.6% of the Company's issued share capital. His invaluable business experience and continuity of Board membership has enhanced the effectiveness of the Board as a whole and we will all miss his wisdom and venture capital insights when he retires at this year's AGM.

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 recommendation by 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. Each Board Committee is now chaired by a different Non-executive Director.

Subsequent to the 2022 review, LYBAS joined the Board meeting of the Company in May 2023 to review progress in the areas previously identified for development. LYBAS was complimentary of the progress made since the 2022 review. Throughout the year to 31 March 2024, the Board has sustained the improvements made since 2022.

Board meetings

The Board meets formally for a minimum of seven times each year. In addition, the Non-executive Directors communicate directly with the Executive Directors between Board meetings. The Board 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 2024 seven 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	7/7	3/3	6/7	1/1
Dr Mark Payton	7/7	3/3[1]	6/7[1]	–
Martin Glanfield	7/7	3/3[1]	4/7[1]	–
Julian Viggars	6/7	2/3[1]	–	–
Diane Seymour-Williams	7/7	2/3[1]	7/7	1/1
Ray Chamberlain	7/7	–	–	–
Dr Jonathan Pell	7/7	3/3	7/7	1/1
Caroline Plumb OBE	7/7	3/3	–	1/1

1 Attended by invitation.

Board Committees

The Board delegates specific duties and responsibilities to certain Committees and has established a Nominations Committee, an Audit and Risk Committee and a Remuneration Committee, as described more fully below, except in respect of the Remuneration Committee, whose report is set out on pages 53 to 58 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. The Nominations Committee met once 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, funds 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 provided 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; and
- 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.

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 Risk & Compliance Director. The Group Risk & 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.

The QCA 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 in force during the financial year ended 31 March 2024.

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.	Pages 1 to 41 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, which returned to London in September 2023 and will be held in London again in September 2024.	Pages 6 & 7 and 47 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 s172 Compliance section. Additionally, the Commitment to Sustainability and Corporate Governance section demonstrates how seriously the Group takes its ESG responsibilities.	Pages 6 & 7 and 14 & 15 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, operational and strategic risks) and risk appetite (specifically in terms of the Group's investing policy).	Pages 33 to 41 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 42 to 58 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 42 & 43 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 periodically 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 the last financial year, and have continued to be implemented during the year to 31 March 2024. A follow up review in May 2023 was positive in respect of progress made.	Page 48 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 s172 Compliance section of the Strategic Report references 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 the year to 31 March 2024 and the year to 31 March 2025, which include consideration of Mercia's cultural values.	Pages 4, 6 & 7 and 53 & 54 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 42 to 58 of this Annual Report and the AIM Rule 26 section of the Group's website
Build trust			
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	✓	Mercia's Annual Report includes disclosure of Board Committees, their composition and where relevant, any work undertaken during the year. It includes a detailed Remuneration Report. Mercia's website includes all historic Annual Reports, results announcements, results presentations, and other governance-related material, including notices of all AGMs. These can be found in the Investor Relations section, under Regulatory News. This section of the website also includes the results of all AGMs.	Pages 48 & 49 and 53 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 26 September 2024, in London.

Ian R Metcalfe OBE
Non-executive Chair
1 July 2024

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.

The Remuneration Committee comprises Diane Seymour-Williams as Chair, Ian Metcalfe OBE and Dr Jonathan Pell. The Remuneration Committee is expected to meet at least twice a year and otherwise as required. During the year, the Committee met formally seven times, and on other occasions on an ‘as required’ basis.

Remuneration policy

The Remuneration Committee continues to believe that the success of the Group depends in large part on the performance of the Executive Directors and senior management team and in being able to attract, retain and motivate people of high calibre and experience. The Committee also recognises the importance of ensuring that employees are incentivised and identify closely with the achievement of the Group’s strategic objectives. The leading objectives are to grow the Group’s total funds under management (“FuM”) and, through the successful investment in and potential exit from technology-enabled companies, achieve growth in EBITDA, adjusted operating profit, pre-tax profits and net asset value per share, together with an increasing annual dividend, with the aim of increasing shareholder returns over the medium to long term.

Accordingly, the Committee seeks to provide a fair, balanced, competitive and affordable remuneration package for its Executive Directors and all other staff, whilst 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, which do however also include ESG objectives. For Executive Directors, the main elements of their remuneration package are base salary; an annual performance-related bonus scheme; 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 (“TSR”). Following extensive consultation with the Company’s Nominated Adviser and leading shareholders, a new long-term incentive plan was announced for the then four senior executives on 12 July 2021, with effect from 1 April 2021. This incentive plan was extended for a further year on 26 March 2024, the rationale for which is explained further below.

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 2024, the Committee determined once again that any bonus award to the Executive Directors would be payable in cash up to 50% of base salary, with the remainder in restricted Mercia shares. The agreed criteria for determining the ultimate award were:

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

Having considered the financial performance of the Group and the continuing successful leadership of the Executive Directors against each of the above criteria, the Committee awarded bonuses ranging from 77% to 82% of their base salaries to the three Executive Directors. 50% of each bonus has been paid in cash and the balance of the bonus has been settled in cash, with the net payment received by each Executive Director to be applied by them to purchase Mercia shares, which will be held for a minimum of one year.

The Committee has agreed to a maximum bonus of 100% of base salary depending upon the Group’s performance for the year to 31 March 2025, 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.

The agreed criteria for determining the ultimate award are as follows:

i) FuM performance – 30% weighting;
ii) TSR – 45% weighting; and
iii) Strategic priorities and Mercia core values – 25% weighting.

The Committee will continue to monitor the suitability of the Group's remuneration policy and performance criteria and will maintain informal dialogue on this subject with the Group's Nominated Adviser, leading shareholders 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	307	6 months
Martin Glanfield	15 December 2014	250	6 months
Julian Viggars	17 April 2018	250	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 and ends on 7 December this year. All Executive Directors and employees are eligible to participate. The Committee has approved the issue of appropriate awards 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 TSR from the date of grant to the third anniversary, is not less than 6% (compound) per annum for CSOPs issued up to and including 31 March 2024, with the exception of 8% (compound) per annum for options issued on 21 August 2020 and 9 July 2021. 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 2024, new share option awards were granted to a number of staff. The total number of options in issue as at 31 March 2024 was 38,201,782, split between 4,414,713 of options which were exercisable as at 31 March 2024 following the vesting of January 2020 and August 2020 issued options during that year, and 33,787,069 which were not yet exercisable, as the performance measurement date has not yet occurred. Included in the options in issue as at 31 March 2024 are 3,212,631 2022 and 2023 SAYE Options (described below) and 8,800,000 Performance Share Plan options granted to the three Executive Directors and one senior executive in 2021 (2023: 28,598,579 which included 1,998,439 2022 SAYE Options and 8,800,000 Performance Share Plan options).

The Company's current share incentive plan, known as the Mercia CSOP, will expire in December this year. Following the recommendation of the Remuneration Committee, the Company will seek shareholder approval at the AGM in September for the adoption of a new umbrella long term incentive plan. The new plan will last for ten years and will continue the current limit of the number of shares that may be issued pursuant to all employee share schemes, including those to Executive Directors, being 10% of the issued share capital of the Company from time to time.

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. HMRC approved the price of SAYE options granted under the scheme, being a 20% discount to the closing share price of the Company on the last business day before invitations are issued to employees.

The Company invited employees to apply for SAYE options on 15 September 2022 ("2022 SAYE Options") at an option price of 24.20 pence, the closing share price of the Company on the last business day before the invitation being 30.25 pence. 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 SAYE Options may be exercised earlier than the Bonus Date in the limited circumstances specified in the SAYE Plan.

The Company also invited employees to apply for SAYE options on 21 August 2023 ("2023 SAYE Options") at an option price of 20.72 pence, the closing share price of the Company on the last business day before the invitation being 25.9 pence. 2023 SAYE Options are connected to a three-year savings contract which commenced on 1 November 2023. The Bonus Date of the savings plan is 1 November 2026 and the SAYE Options are exercisable within six months of the Bonus Date. The SAYE Options may be exercised earlier than the Bonus Date in the limited circumstances specified in the SAYE Plan.

As at 31 March 2024, a total of 3,212,631 SAYE Options were in issue, comprising 893,896 2022 SAYE Options and 2,318,735 2023 SAYE Options. These options are included within the 10% limit referred to above.

The Mercia Carried Interest Plans ("CIPs")

Mercia 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 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. As at 31 March 2024 no new allocations had yet been made under the fifth two-year plan period.

Once Mercia 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 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 any of 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	
	2024 £’000	2023 £’000	**2024 £’000**	2023 £’000	**2024 £’000**	2023 £’000	**2024 £’000**	2023 £’000	**2024 £’000**	2023 £’000
Executive Directors										
Dr Mark Payton	**298**	281	**33**	31	**3**	2	**244**	155	**578**	469
Martin Glanfield	**243**	229	**27**	25	**4**	4	**199**	126	**473**	384
Julian Viggars	**243**	229	**27**	25	**4**	3	**187**	126	**461**	383
Non-executive Directors										
Ian Metcalfe OBE	**88**	83	**–**	–	**–**	–	**–**	–	**88**	83
Diane Seymour-Williams	**50**	48	**–**	–	**–**	–	**–**	–	**50**	48
Ray Chamberlain	**42**	40	**–**	–	**–**	–	**–**	–	**42**	40
Dr Jonathan Pell	**49**	46	**–**	–	**–**	–	**–**	–	**49**	46
Caroline Plumb OBE	**42**	40	**–**	–	**–**	–	**–**	–	**42**	40
	1,055	996	**87**	81	**11**	9	**630**	407	**1,783**	1,493

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

Mercia Fund Management Phantom Carried Interest Plans (“MFM Plan”)

The Group’s wholly owned subsidiary, Mercia Fund Management Ltd (“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 three MFM Plan investee company exits, the following bonuses were paid during the year:

	Year ended 31 March 2024 £’000	Year ended 31 March 2023 £’000
Executive Directors		
Dr Mark Payton	**4**	161
Martin Glanfield	**1**	11
Julian Viggars	**3**	89
	8	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 and one senior executive with the future performance of the business and shareholders’ interests. The PSP comprises 8,800,000 nil cost options (“PSP Options”) awarded under the existing 2014 CSOP. These PSP Options are subject to the satisfaction of a performance condition and should the performance condition be achieved and they vest, are subject to a subsequent two-year holding period. The original vesting period in which the performance condition of the PSP Options had to be satisfied was three years, starting on 1 April 2021.

On 27 March 2024 the Company announced that, pursuant to the existing 2021 Performance Share Plan, the performance period for the existing 8,800,000 nil cost options (the “PSP Options”) over Ordinary shares granted on 9 July 2021 to the Executive Directors and one senior executive, had been extended.

Pursuant to the rules of the Mercia CSOP, the Company's Remuneration Committee elected to vary the vesting period in which the performance condition of the PSP Options has to be satisfied, by an additional year. The Remuneration Committee considered that this is the most appropriate way of continuing to align the interests of the Executive Directors and the one senior executive with the shareholders of the Company, whilst continuing to provide a strong incentive. This facilitates the retention of high-calibre individuals, who are leading the delivery of positive investment returns for Mercia's clients and as a direct consequence, the continuing successful growth of Mercia's AuM and its long-term profitability.

The PSP Options will, subject to the satisfaction of the performance condition, now vest on 9 July 2025, being the fourth anniversary of the date of grant of the options (the "Vesting Date") and will continue to be subject to a subsequent two-year holding period. The number of PSP Options which will vest on the Vesting Date will now depend on the Company's TSR over a performance period of four financial years, which started 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 10.0% TSR per annum (compounded) over the new four-year performance period. Vesting will then increase on a straight-line basis to full vesting for the achievement of 20.0% TSR per annum (compounded).

TSR will be measured using the average share price for the three days immediately prior to 31 March 2025. The PSP Options granted are subject to typical malus and clawback provisions.

Share options

The number of options over Mercia's Ordinary shares, held by Directors as at 31 March 2024, are set out below:

	Number of options					
	As at 31 March 2024	As at 31 March 2023	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 2025[3]
	89,527	–	18 Sep 2023	SAYE	20.72p	1 November 2026 to 1 May 2027
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 2025[3]
	89,527	–	18 Sep 2023	SAYE	20.72p	1 November 2026 to 1 May 2027
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 2025[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 2024, 631,001 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 2024, 548,696 of options held by Martin Glanfield and 548,696 of options held by Julian Viggars were exercisable.

Following satisfaction of the performance condition, 1,880,000 of options held by Dr Mark Payton vested on 21 August 2023, with one-third exercisable from 21 August 2023, one-third from 21 August 2024 and the remaining one-third from 21 August 2025. As at 31 March 2024, 626,666 of these options were exercisable.

Following satisfaction of the performance condition, 1,600,000 of options held by Martin Glanfield and 1,600,000 of options held by Julian Viggars vested on 21 August 2023, with one-third exercisable from 21 August 2023, one-third from 21 August 2024 and the remaining one-third from 21 August 2025. As at 31 March 2024, 533,333 of options held by Martin Glanfield and 533,333 of options held by Julian Viggars were exercisable.

1 Of the total options which vested on 28 January 2023, none of the 631,001 options held by Dr Mark Payton, 548,696 held by Martin Glanfield and 548,696 held by Julian Viggars were exercised in the subsequent period to 31 March 2024, and so remained outstanding as at 31 March 2024. The final one-third will become exercisable from 28 January 2025.

2 Of the total options which vested on 21 August 2023, none of the 626,666 options held by Dr Mark Payton, 533,333 held by Martin Glanfield and 533,333 held by Julian Viggars were exercised in the subsequent period to 31 March 2024, and so remained outstanding as at 31 March 2024. A further one-third will become exercisable from 21 August 2024, with the final one-third becoming exercisable from 21 August 2025.

3 The PSP options will vest on 9 July 2025 subject to satisfaction of the performance condition. If the performance condition is met, the shares issued and allotted are subject to two-year malus and clawback provisions from 9 July 2025 to 8 July 2027.

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 2024	Number of Ordinary shares as at 31 March 2023
Ian Metcalfe OBE	**357,709**	357,709
Dr Mark Payton	**7,184,876**	7,184,876
Martin Glanfield[1]	**1,744,947**	1,599,118
Julian Viggars	**978,640**	978,640
Diane Seymour-Williams	**250,000**	250,000
Ray Chamberlain[2]	**63,630,953**	65,194,766
Dr Jonathan Pell	**–**	–
Caroline Plumb OBE	**40,000**	40,000

1 In November 2023, Martin Glanfield increased his shareholding in Mercia Asset Management PLC by purchasing 145,829 shares via his SIPP.

2 In March 2024, Forward Nominees Ltd, an entity closely associated with Ray Chamberlain sold 1,563,813 Ordinary shares. The shares were sold by non-Chamberlain family shareholders. As at 31 March 2024 Ray Chamberlain is indirectly interested in 63,630,953 Ordinary shares via the Forward Innovation Fund (39,272,336 Ordinary shares), Croftdawn Ltd (3,994,786 Ordinary shares), Mercia Growth Nominees Ltd (126,436 Ordinary shares) and Forward Nominees Ltd (20,237,395 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
1 July 2024

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 2024 and of the Group's loss 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 2024 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 the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the forecasted cash flows that support the Directors' assessment of going concern to check that they are in line with our expectations based on our understanding of the Group. Key assumptions include forecast direct investment, forecast revenues and investment realisations. These have been reviewed against current performance, availability of cash resources and the other stress tested scenarios;
- Evaluating 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	95% (2023: 95%) of Group profit before tax 97% (2023: 89%) of Group revenue 98% (2023: 96%) of Group total assets
Key audit matters	See table below. During the prior year, the Group acquired Frontier Development Capital Limited. As such, this was a key audit matter due to the significance of the business combination transaction and related goodwill and intangible assets which arose at acquisition. There have been no business combinations in the current year and therefore this is not considered a key audit matter in the current year.
Materiality	*Group financial statements as a whole* **2024:** The materiality for the Group was set at £4,900,000 based on 2.5% of net assets. **2023:** The materiality for the Group was set at £5,200,000 based on 2.5% of net assets.

Key audit matters	**2024**	2023
Valuation of unquoted investments	✓	✓
Revenue recognition	✓	✓
Valuation of goodwill and intangible assets	✓	✓
Acquisition of Frontier Development Capital Limited	×	✓

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 (standalone), Mercia Fund Management Limited, Mercia Regional Ventures Limited, and Frontier Development Capital Limited. The financial information of all significant components were subject to full scope audits with Mercia Business Loans Limited and Mercia Investments 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, – 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. There is a risk that fund management and performance fees are not calculated or recognised in accordance with the relevant standards, accounting policies and the relevant Limited Partnership Agreements or investment management agreements. For fees earned on VCTs, FuM on which they are based may also be subject to manipulation. In respect of initial management fees and portfolio directors' fees there is a risk that these are calculated incorrectly with reference to the initial agreement. In respect of share offer and custodian fees there is a risk that these are not correctly calculated.	We assessed whether the accounting policies of the Group are in accordance with the applicable accounting standards. We confirmed our understanding of the revenue processes in relation to all revenue streams across the entities including from VCTs, EIS funds and limited partnerships. We walked through the revenue processes to evaluate the design and implementation of relevant controls over revenue. 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, annual fund management fees and custodian fees were recalculated using the investment memorandums and commitments were agreed to custodian reports, where applicable. In relation to the VCT funds, a recalculation was performed based on the audited and half year NAVs. In relation to the VCT share offer fees, we confirmed the fees directly with an independent third party. 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.

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 financial position. 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: – Obtained independent confirmation of balances outstanding and agreed these to accounting records; – Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no material movement in the market interest rate since acquisition and considering the "unit of account" concept. We also considered conversion options and assessed the appropriateness of the fair value of the instrument as a whole. For all unquoted investments, we performed the following procedures where relevant: – Checked whether the valuation had been prepared by a suitably qualified individual; – Considered whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and the applicable accounting standards; and – Verified whether the valuation used up to date trading information. **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. We 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 2024. **Valuations based on multiples** We performed the following procedures for all investments within our sample: – Challenged and corroborated the inputs to the valuation with reference to management information of investee companies, market data and our own understanding and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements; – Reviewed the historical financial statements and any recent management information available to support assumptions about maintainable revenues or cash flows used in the valuations; – Considered the revenue multiples applied and any discounts applied by reference to observable listed company market data; and – Challenged the consistency and appropriateness of adjustments made to such market data in establishing the revenue multiples applied in arriving at the valuations adopted by considering the individual performance of investee companies against plan and relative to the peer group, the market and sector in which the investee company operates and other factors as appropriate. **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 goodwill and for all assets for which there is an indicator of impairment. The impairment assessment was required for each of the four 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, the investment track records and assessing the reasonability of the discount rate used by benchmarking to our internal valuations expert's assessment. 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 sufficient 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.

Our application of materiality

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

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

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

	Group financial statements 2024 £m	Group financial statements 2023 £m	Parent company financial statements 2024 £m	Parent company financial statements 2023 £m
Materiality	**4,900,000**	5,200,000	**3,700,000**	3,700,000
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	**3,600,000**	3,800,000	**2,775,000**	2,500,000
Basis for determining performance materiality	**75% of materiality**	70% of materiality	**75% of materiality**	70% of materiality
Rationale for the percentage applied for performance 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. Given our experience with the entity since our engagement, there are no suggestions of heightened risk or complexity, or significant PY errors. We noted no indicators of impairment in relation to underlying businesses as they're profitable and cash generative. Having regard to all the factors below and coupled with this, we have increased the level for performance materiality in the current 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 2.19% and 76% (2023: 2.5% and 73%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £41,000 to £3,700,000 (2023: £127,000 to £3,800,000). In the audit of each component, we further applied performance materiality levels of 75% (2023: 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 £245,000 (2023: £260,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Our procedures in respect of the above included:

- 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
- reviewing minutes of meetings of those charged with governance and a sample of legal invoices throughout the period for instances of non-compliance with laws and regulations.

We assessed the susceptibility of the financial statements to material misstatement, including fraud.

Our risk assessment procedures included:

- enquiry with the management and those charged with governance regarding any known or suspected instances of fraud;
- review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- considering management fees and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to be revenue recognition, the valuation of unquoted investments and the valuation of goodwill and intangible assets (which we discuss further under the Key Audit Matter section), as well as management override of controls.

In addressing the risk of management override of controls, we:

- considered the opportunity and incentive to manipulate accounting entries and target tested relevant journals made during the year and in the period end financial reporting process;
- reviewed for significant transactions outside the normal course of business;
- reviewed the significant judgements made in the unquoted investment valuations and considering whether the valuation methodology is the most appropriate;
- considered any indicators of bias in our audit as a whole; and
- performed a review of unadjusted audit differences, if any, for indications of bias or deliberate misstatement.

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.

Vanessa-Jayne Bradley (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
1 July 2024

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 2024

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Revenue	3	**30,434**	25,881
Administrative expenses	7	**(25,386)**	(21,001)
Realised gain/(loss) on the sale of direct investments	4	**4,450**	(849)
Fair value movements in direct investments	4	**(17,338)**	1,201
Share-based payments charge	6	**(1,002)**	(1,049)
Amortisation of intangible assets	16	**(2,989)**	(2,337)
Movement in fair value of deferred consideration	24	**(540)**	(1,462)
Operating (loss)/profit before exceptional item		**(12,371)**	384
Exceptional item	8	**–**	(372)
Operating (loss)/profit		**(12,371)**	12
Finance income	9	**4,216**	2,428
Finance expense	10	**(56)**	(31)
(Loss)/profit before taxation		**(8,211)**	2,409
Taxation	11	**626**	427
(Loss)/profit and total comprehensive (expense)/income		**(7,585)**	2,836
Basic (loss)/earnings per Ordinary share (pence)	12	**(1.71)**	0.64
Diluted (loss)/earnings per Ordinary share (pence)	12	**(1.71)**	0.63

All results derive from continuing operations.

The notes on pages 71 to 94 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2024

	Note	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Assets			
Non-current assets			
Goodwill	15	**21,126**	21,126
Intangible assets	16	**15,170**	18,159
Property, plant and equipment	17	**128**	122
Right-of-use assets	18	**711**	842
Investments	19	**116,861**	136,550
Total non-current assets		**153,996**	176,799
Current assets			
Trade and other receivables	20	**3,971**	3,787
Short-term liquidity investments	21	**–**	279
Cash and cash equivalents	21	**46,940**	37,555
Total current assets		**50,911**	41,621
Total assets		**204,907**	218,420
Current liabilities			
Trade and other payables	22	**(8,893)**	(6,813)
Lease liabilities	23	**(376)**	(333)
Deferred consideration	24	**(2,279)**	(1,227)
Total current liabilities		**(11,548)**	(8,373)
Non-current liabilities			
Lease liabilities	23	**(326)**	(574)
Deferred consideration	24	**–**	(2,012)
Deferred taxation	25	**(3,792)**	(4,540)
Total non-current liabilities		**(4,118)**	(7,126)
Total liabilities		**(15,666)**	(15,499)
Net assets		**189,241**	202,921
Equity			
Issued share capital	26	**4**	4
Share premium	27	**83,775**	83,744
Treasury reserve	28	**(3,188)**	–
Other distributable reserve	29	**59,338**	63,266
Retained earnings		**43,756**	51,341
Share-based payments reserve	30	**5,556**	4,566
Total equity		**189,241**	202,921

The notes on pages 71 to 94 are an integral part of these financial statements.

The consolidated financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 67 to 94 were approved by the Board of Directors and authorised for issue on 1 July 2024. 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 2024

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Cash flows from operating activities:			
Operating (loss)/profit		**(12,371)**	12
Adjustments to reconcile operating (loss)/profit to net cash generated from operating activities:			
Depreciation of property, plant and equipment	17	**104**	68
Depreciation of right-of-use assets	18	**385**	239
(Gain)/loss on sale of direct investments	4	**(4,450)**	849
Fair value movements in direct investments	4	**17,338**	(1,201)
Share-based payments charge	6	**1,002**	1,049
Amortisation of intangible assets	16	**2,989**	2,337
Movement in fair value of deferred consideration	24	**540**	1,462
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		**800**	(1,087)
Increase/(decrease) in trade and other payables		**1,535**	(709)
Cash generated from operating activities		**7,872**	3,019
Corporation tax paid		**(788)**	(1,819)
Net cash generated from operating activities		**7,084**	1,200
Cash flows from direct investment activities:			
Sale of direct investments	19	**26,696**	3,744
Purchase of direct investments	19	**(19,926)**	(20,778)
Investee company loan repayments	19	**300**	125
Investee company loan interest and redemption premium received	9	**2,290**	1,979
Net cash generated from/(used in) direct investment activities		**9,360**	(14,930)
Cash flows from other investing activities:			
Interest received from cash and cash equivalents	9	**1,813**	404
Purchase of property, plant and equipment	17	**(110)**	(77)
Acquisition of subsidiary undertaking	14	**–**	(6,951)
Cash acquired with purchase of subsidiary undertaking	14	**–**	2,882
Deferred consideration paid in respect of acquisitions	24	**(1,500)**	(2,100)
Decrease in short-term liquidity investments		**288**	5,000
Net cash generated from/(used in) other investing activities		**491**	(842)
Net cash generated from/(used in) total investing activities		**9,851**	(15,772)
Cash flows from financing activities:			
Dividends paid	13	**(3,928)**	(3,653)
Purchase of shares into treasury	28	**(3,194)**	–
Proceeds received from the exercise of employee share options		**26**	–
Interest paid	10	**(56)**	(31)
Payment of lease liabilities		**(398)**	(238)
Net cash used in financing activities		**(7,550)**	(3,922)
Net increase/(decrease) in cash and cash equivalents		**9,385**	(18,494)
Cash and cash equivalents at the beginning of the year		**37,555**	56,049
Cash and cash equivalents at the end of the year	21	**46,940**	37,555

Consolidated statement of changes in equity

For the year ended 31 March 2024

	Issued share capital (note 26) £'000	Share premium (note 27) £'000	Treasury reserve (note 28) £'000	Other distributable reserve (note 29) £'000	Retained earnings £'000	Share-based payments reserve (note 30) £'000	Total £'000
As at 1 April 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**
Purchase of Ordinary shares into treasury	**–**	**–**	**(3,194)**	**–**	**–**	**–**	**(3,194)**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(7,585)**	**–**	**(7,585)**
Dividends paid	**–**	**–**	**–**	**(3,928)**	**–**	**–**	**(3,928)**
Exercise of share options	**–**	**31**	**6**	**–**	**–**	**(12)**	**25**
Share-based payments charge	**–**	**–**	**–**	**–**	**–**	**1,002**	**1,002**
As at 31 March 2024	**4**	**83,775**	**(3,188)**	**59,338**	**43,756**	**5,556**	**189,241**

1. Accounting policies

The principal material 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 2024, 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 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 II) Limited	05713861
MRV (General Partner MEIF II – Equity EM) Limited	15310407
MRV (General Partner MEIF II – Equity WM) Limited	15310482
MRV (General Partner NPIF II – Equity YH) Limited	15310493
EV Business Loans 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
MBL (General Partner NPIF II – Debt YH) Limited	15310511
FDC SPV Limited	12641163
FDC General Partner Limited	11958527
FDC (General Partner MEIF II – Debt WM) Limited	15311167

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.

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 consolidated 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 companies 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.

1. Accounting policies continued

Interest income

Interest income on debt investments made to direct portfolio investee companies, including any redemption premiums, is recognised when it is highly probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income earned on cash deposits and short-term liquidity investments is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Exceptional 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 in 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 terms 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 consolidated statement of comprehensive income.

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/credit 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 at 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 direct investment portfolio companies are substantially trading in nature and the Group typically holds more than 10% in each company, the Directors continue to consider that any capital gains arising would qualify 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 any 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. 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.

1. Accounting policies continued

Financial instruments continued

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.

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.

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, readily convertible to known amounts of cash and subject to an insignificant risk of a change in value.

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 other 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.

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

Fair value measurements and valuation processes continued

For unquoted investments, the measurement of fair value requires the valuer to assume the underlying business or instrument is realised or sold at the measurement date, appropriately allocated to the various interests, regardless of whether the underlying business is prepared for sale or whether its shareholders intend to sell in the near future.

In estimating fair value for an investment, the valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the investment in the context of the total investment portfolio and should use reasonable current market data and inputs, combined with reasonable market participant assumptions. The price of recent investment can be used to estimate the enterprise value, before allocating to the various interests. The Group believes that this is still the most relevant technique to measure fair value for early-stage investments. However, it has also taken into consideration time elapsed, performance since the investment round and external market events to help inform its judgements.

0-6 months post last funding round

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

7-18 months post last funding round

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

19+ months post last funding round

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

Valuation of contingent consideration

The fair value of the deferred consideration payable in respect of the acquisition of FDC in December 2022 is conditional upon certain conditions being met.

The first of the three first deferred consideration conditions was met during the year, resulting in £1,500,000 being paid to the vendors.

The fair value of the second condition has been derived from the assessed probability of the revenue target occurring at 90.0%, discounted at an annual rate of 15.0%. Should the probability of this condition be reduced by 10.0%, the discounted value of contingent consideration as at 31 March 2024 would reduce by £91,000. The discount rate used to fair value the second 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 2024 would reduce by £5,000.

The fair value of the final condition has been derived from the assessed probability of the net third-party fundraising target occurring at 90.0%, discounted at an annual rate of 15.0%. Should the probability of this condition be reduced by 10.0%, the discounted value of contingent consideration as at 31 March 2024 would reduce by £136,000. Should the discount rate be increased by 1.0%, the discounted value of the contingent consideration as at 31 March 2024 would reduce by £12,000. The condition has currently been met, although the measurement date is not until 4 December 2024.

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 Group-wide basis. The Board of Directors assesses the performance of the operating segment using financial information which is measured and presented in a consistent manner.

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Fund management fees	**19,214**	17,593
Initial management fees	**5,465**	3,680
Portfolio directors' fees	**3,933**	2,934
Other revenue	**341**	343
VCT share offer fees	**1,481**	1,331
	30,434	25,881

4. Realised gain/(loss) and fair value movements in direct investments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Realised gain/(loss) on sale of direct investments (note 19)	**4,450**	(849)
Fair value movements in direct investments (note 19)	**(17,338)**	1,201
	(12,888)	352

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 2024 Number	Year ended 31 March 2023 Number
Asset management	**106**	89
Central functions	**32**	27
	138	116

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 2024 £'000	Year ended 31 March 2023 £'000
Wages and salaries	**14,467**	11,804
Social security costs	**2,084**	1,706
Other pension costs (note 31)	**979**	856
	17,530	14,366

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 56, which forms part of these consolidated financial statements.

6. Share-based payments charge

The Group operates a share option scheme for employees of the Group and Executive Directors. Further details are set out on pages 54 to 57 of the Remuneration Report. Total options existing over Ordinary shares as at 31 March 2024 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	1,211,113	24.300p
	21 August 2020	20 August 2030	895,646	21.500p
	9 July 2021	8 July 2031	820,779	38.500p
	25 July 2022	24 July 2032	1,877,563	29.500p
	14 August 2023	13 August 2033	7,094,440	26.800p
	26 March 2024	25 March 2034	90,909	33.000p
Unapproved share option scheme	28 January 2020	27 January 2030	3,351,026	24.300p
	21 August 2020	20 August 2022	7,966,365	21.500p
	9 July 2021	8 July 2031	689,221	38.500p
	9 July 2021	9 July 2025	8,800,000	0.001p
	25 July 2022	24 July 2032	443,438	29.500p
	14 August 2023	13 August 2033	839,560	26.800p
	26 March 2024	25 March 2034	909,091	33.000p
Approved SAYE scheme	9 September 2022	1 May 2026	893,896	24.200p
	18 September 2023	1 May 2027	2,318,735	20.720p
			38,201,782	

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

	Year ended 31 March 2024		Year ended 31 March 2023	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**28,598,579**	**16.80p**	27,507,139	17.57p
Granted during the year	**11,412,735**	**29.79p**	5,459,191	27.53p
Forfeited during the year	**(1,691,211)**	**28.78p**	(1,899,751)	31.58p
Lapsed during the year	**–**	**–**	(2,468,000)	33.50p
Exercised during the year	**(118,321)**	**21.97p**	–	–
Share options outstanding as at 31 March	**38,201,782**	**22.34p**	28,598,579	16.80p
Exercisable at the year end	**4,414,713**		1,540,714	
Not exercisable at the year end	**33,787,069**		27,057,865	
Share options outstanding as at 31 March	**38,201,782**		28,598,579	

The options outstanding as at 31 March 2024 had a weighted average remaining contractual life of two years (2023: two years). During the year, 118,321 options were exercised at a weighted average share price of 25.1 pence per share (2023: no options exercised). The Group did not enter into any share-based payment transactions with parties other than employees and Executive Directors during the year.

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
9 July 2021	38.500p	38.500p	0.5%	–	10 years	40%	10.83p
9 July 2021*	0.001p	0.001p	4.4%	2.7%	10 years	31%	6.35p
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
14 August 2023	26.800p	26.800p	4.5%	3.2%	10 years	27%	5.13p
18 September 2023	20.720p	26.700p	4.5%	3.2%	3 years	26%	6.72p
26 March 2024	33.000p	33.000p	3.8%	2.7%	10 years	31%	7.47p

* On 26 March 2024 these share options were modified to extend the performance period by 12 months. The assumptions presented are those used to estimate the post-modification fair value.

On the 14 August 2023, share options were granted with a total estimated fair value of £338,000, calculated using a Monte Carlo valuation model.

On 18 September 2023, share options were granted as part of Mercia's SAYE scheme. Total options granted as part of the SAYE scheme had a total estimated fair value of £133,000, calculated using a binomial valuation model.

On 26 March 2024, share options were granted with a total estimated fair value of £75,000, calculated using a Monte Carlo valuation model. Additionally on 26 March 2024, the performance period for the share options granted on 9 July 2021, with a 0.001 pence exercise price, was extended by 12 months. Subject to the achievement of the new performance condition, these options will now vest on 9 July 2025. The post-modification fair value is estimated at 6.35 pence per share, equivalent to a total fair value of £558,485, calculated using a Monte Carlo valuation model.

The risk-free rates have been derived from the yield on zero coupon UK 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 total charge for the year recognised in the consolidated statement of comprehensive income for share options granted to employees and Executive Directors is £1,002,000 (2023: £1,049,000).

7. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Administrative expenses:		
Staff costs (note 5)	**17,530**	14,366
Marketing, professional adviser, travel and entertainment and other administration costs	**6,594**	5,514
Depreciation of property, plant and equipment (note 17)	**104**	68
Depreciation of right-of-use assets (note 18)	**385**	239
Expenses relating to short-term leases and leases of low-value assets (note 23)	**506**	427
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**152**	153
– Fees payable to the Company's auditor for other services:		
– Review of the interim accounts of the Company	**25**	22
– The audit of accounts of subsidiaries of the Company	**70**	77
– Corporate finance services*	**–**	120
– CASS-related assurance services	**20**	15

* 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 2024 £'000	Year ended 31 March 2023 £'000
Cash deposits	**1,917**	404
Short-term liquidity investments	**9**	45
Investee company loans (interest and redemption premium)	**2,290**	1,979
Total interest income	**4,216**	2,428

10. Finance expense

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Interest on lease liabilities	**56**	31
Total interest expense	**56**	31

11. Taxation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current tax		
UK corporation tax	**(122)**	(157)
Deferred tax		
Origination and reversal of temporary timing differences	**748**	584
Total tax credit	**626**	427

The UK standard rate of corporation tax is 25% (2023: 19%). The deferred tax credit of £748,000 (2023: £584,000) 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 (loss)/profit to the total tax credit is shown below:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
(Loss)/profit before taxation	**(8,211)**	2,409
Tax at the standard rate of corporation tax in the UK of 25% (2023: 19%)	**2,053**	(458)
Effects of:		
Income not subject to tax	**1,113**	589
Expenses not deductible for tax purposes	**(2,131)**	(318)
Share of partnership profits	**(1,134)**	(509)
Capital losses	–	234
Remeasurement of deferred tax for changes in tax rates	–	140
Other timing differences not recognised	**725**	749
Total tax credit	**626**	427

The Group's deferred tax liability has been calculated at a rate of 25% as at 31 March 2024 (2023: 25%).

A total deferred tax liability of £3,792,000 (2023: £4,540,000) as at 31 March 2024 relates to the intangible assets recognised on the acquisition of FDC in December 2022 and on the acquisition of the VCT fund management business in 2019.

A potential deferred tax asset of £3,392,000 (2023: £3,436,000) 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. (Loss)/earnings per share

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

	Year ended 31 March 2024	Year ended 31 March 2023
(Loss)/profit for the financial year (£'000)	**(7,585)**	2,836
Basic weighted average number of Ordinary shares ('000)	**444,716**	441,156
Basic (loss)/earnings per Ordinary share (pence)	**(1.71)**	0.64
Diluted weighted average number of Ordinary shares ('000)	**444,716**	449,348
Diluted (loss)/earnings per Ordinary share (pence)	**(1.71)**	0.63

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Weighted average number of shares		
Basic	**444,716**	441,156
Dilutive impact of employee share options	**–**	8,192
Diluted weighted average number of Ordinary shares	**444,716**	449,348

The dilutive impact of employee share options for the year ended 31 March 2024 has been excluded from the weighted average number of diluted Ordinary shares, as including them is anti-dilutive to diluted earnings per share.

13. Dividends

	Year ended 31 March 2024		Year ended 31 March 2023	
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 2023	**–**	**–**	0.33	1,452
Final dividend declared in relation to year ended 31 March 2023	**–**	**–**	0.53	2,367
Interim dividend declared in relation to year ended 31 March 2024	**0.35**	**1,561**	–	–
Final dividend proposed in relation to year ended 31 March 2024 **	**0.55**	**2,371**	–	–
Total	**0.90**	**3,932**	0.86	3,819

	Year ended 31 March 2024		Year ended 31 March 2023	
Dividends paid during the year	**Pence per share**	**£'000**	Pence per share	£'000
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
Final dividend paid in relation to year ended 31 March 2023	**0.53**	**2,367**	–	–
Interim dividend paid in relation to year ended 31 March 2024	**0.35**	**1,561**	–	–
Total	**0.88**	**3,928**	0.83	3,653

** The share buyback programme completed on 29 May 2024, with a total of 15.7million shares purchased by the Company and held in treasury. If approved by shareholders at the Annual General Meeting ("AGM") on 26 September 2024, the total final dividend payable in relation to the year ended 31 March 2024, to shareholders on the register on 4 October 2024, is estimated to be £2,371,000.

The proposed final dividend for the year ended 31 March 2024 is subject to shareholder approval at the AGM on 26 September 2024, 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 were as follows:

	Pre-acquisition carrying value £'000	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**

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)	3,109
Less identifiable net assets	(5,576)
Goodwill	**4,484**

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 2022	2,455	7,873	6,314	–	16,642
Addition	–	–	–	4,484	4,484
As at 31 March 2023 and 31 March 2024	**2,455**	**7,873**	**6,314**	**4,484**	**21,126**

Goodwill for each business acquired has been assessed for impairment as at 31 March 2024. 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 2025. Key assumptions are post-tax discount rates of 13.0% and 15.0% (pre-tax discount rates of 17.8% and 20.6%) 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 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 2022	21,835
Acquisition of a subsidiary	4,783
As at 31 March 2023 and 31 March 2024	**26,618**
Accumulated amortisation	
As at 1 April 2022	6,122
Charge for the year	2,337
As at 31 March 2023	**8,459**
Charge for the year	**2,989**
As at 31 March 2024	**11,448**
Net book value	
As at 1 April 2022	15,713
As at 31 March 2023	18,159
As at 31 March 2024	**15,170**

17. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2022	49	78	609	736
Acquisition of subsidiary	–	–	20	20
Additions	–	–	57	57
As at 31 March 2023	**49**	**78**	**686**	**813**
Additions	**12**	**1**	**97**	**110**
As at 31 March 2024	**61**	**79**	**783**	**923**
Accumulated depreciation				
As at 1 April 2022	35	70	518	623
Charge for the year	5	2	61	68
As at 31 March 2023	**40**	**72**	**579**	**691**
Charge for the year	**17**	**5**	**82**	**104**
As at 31 March 2024	**57**	**77**	**661**	**795**
Net book value				
As at 1 April 2022	12	8	93	113
As at 31 March 2023	7	6	109	122
As at 31 March 2024	**4**	**2**	**122**	**128**

18. Right-of-use assets

	Motor vehicles £'000	Properties £'000	Total £'000
Cost			
As at 1 April 2022	115	737	852
Acquisition of a subsidiary	–	566	566
Additions	98	–	98
As at 31 March 2023	**213**	**1,303**	**1,516**
Additions	**156**	**102**	**258**
Disposal	**(12)**	**–**	**(12)**
As at 31 March 2024	**357**	**1,405**	**1,762**
Accumulated depreciation			
As at 1 April 2022	13	422	435
Charge for the year	49	190	239
As at 31 March 2023	**62**	**612**	**674**
Charge for the year	**88**	**297**	**385**
Disposal	**(8)**	**–**	**(8)**
As at 31 March 2024	**142**	**909**	**1,051**
Net book value			
As at 1 April 2022	102	315	417
As at 31 March 2023	151	691	842
As at 31 March 2024	**215**	**496**	**711**

19. Investments

The net change in the value of investments for the year is a decrease of £19,689,000 (2023: increase of £16,992,000). 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 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 repayments	–	(125)	(125)
Disposals	–	(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**
Investments made during the year	**–**	**19,926**	**19,926**
Investee company loan repayment	**–**	**(300)**	**(300)**
Disposal	**–**	**(30,211)**	**(30,211)**
Investment received as consideration	**–**	**3,784**	**3,784**
Realised gain on sale of direct investment	**–**	**4,450**	**4,450**
Unrealised fair value gains on investments	**–**	**7,877**	**7,877**
Unrealised fair value losses on investments	**(187)**	**(25,028)**	**(25,215)**
As at 31 March 2024	**782**	**116,079**	**116,861**

In May 2023, the Group received residual cash proceeds totalling £269,000 from the earlier sale of its equity holding in Intechnica Holdings Limited in January 2023.

In November 2023, the Group sold its investment in nDreams Limited, generating a realised gain of £4,450,000. Total proceeds of £30,211,000 were received upon completion, comprising cash of £26,427,000 and an equity interest in Aonic Founder SCS of £3,784,000.

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 2024 £'000	As at 31 March 2023 £'000
Listed investment	782	969
Price of recent investment round	79,847	79,522
Enterprise value	29,320	52,912
Cost	6,912	3,147
Impaired value[1]	–	–
	116,861	136,550

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

As at 31 March 2024, 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	65.1	6,322	(2,491)	31 December 2022
Ton UK Limited t/a Intelligent Positioning	40.4	2,756	(373)	31 December 2022
Warwick Acoustics Limited	40.3	7,664	(1,704)	30 September 2023
VirtTrade Limited t/a Avid Games	39.4	(5,284)	(597)	31 August 2023
Medherant Limited	38.4	2,255	(1,393)	31 March 2023
Invincibles Studio Limited	35.5	(1,305)	67	31 October 2022
Eyoto Group Limited	24.7	(6,351)	(1,043)	31 December 2022
Netacea Group Limited *	23.8	6,885	6,881	31 March 2023
Voxpopme Limited	22.1	2,641	(1,352)	31 December 2023
sureCore Limited	22.0	(1,633)	(364)	30 June 2023

* The net assets and profit presented are those of the holding company. The financial statements of Netacea Limited, a trading subsidiary of Netacea Group Limited, disclose net liabilities of £23,594,000 as at 31 March 2023, and a loss for the year to 31 March 2023 of £8,874,000.

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
Impression Technologies Limited	65.1	6,322	(2,491)	31 December 2022
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
Medherant Limited	38.4	185	(1,640)	31 March 2022
Invincibles Studio Limited	35.5	(1,372)	349	31 October 2021
nDreams Limited	33.2	23,286	(3,281)	31 March 2022
Ton UK Limited t/a Intelligent Positioning	29.9	3,128	(368)	31 December 2021
Eyoto Group Limited	24.7	(5,643)	(941)	31 December 2021
Netacea Limited	24.1	(14,720)	(6,050)	31 March 2022
sureCore Limited	22.0	(1,269)	(726)	30 June 2022

20. Trade and other receivables

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Current:		
Trade and other receivables	**1,649**	2,202
Less: expected credit loss allowance	**(760)**	(550)
Net trade receivables	**889**	1,652
Corporation tax	**1,556**	890
Other receivables	**303**	268
Prepayments and accrued income	**1,223**	977
	3,971	3,787

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 2024, an amount of £760,000 (2023: £550,000) 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:

	As at 31 March 2024		As at 31 March 2023	
	Gross £'000	Expected credit loss allowance £'000	Gross £'000	Expected credit loss allowance £'000
Not past due	**535**	**(47)**	900	(14)
Past due 0-30 days	**48**	**(3)**	550	(3)
Past due 31-60 days	**213**	**(146)**	199	(112)
Past due more than 61 days	**853**	**(564)**	553	(421)
	1,649	**(760)**	2,202	(550)

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 2024 £'000	Year ended 31 March 2023 £'000
As at 1 April	**550**	318
Increase in loss allowance	**619**	548
Amounts recovered	**(345)**	(144)
Amounts written off	**(64)**	(172)
As at 31 March	**760**	550

The net increase in the expected credit loss allowance of £210,000 (2023: £232,000) 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 2024 £'000	As at 31 March 2023 £'000
Total cash and cash equivalents	**46,940**	37,555
Total short-term liquidity investments	**–**	279

22. Trade and other payables

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Trade payables	**272**	279
Other taxation and social security	**590**	388
Other payables	**1,358**	1,490
Accruals and deferred income	**6,673**	4,656
	8,893	6,813

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 average incremental borrowing rate applied to property lease liabilities recognised as at 31 March 2024 is 4.3% (2023: 4.3%). The average incremental borrowing rate applied to vehicle lease liabilities recognised as at 31 March 2024 is 4.5% (2023: 4.0%). As at 31 March 2024, the Group had no lease liabilities in respect of non-cancellable leases committed to but not yet commenced (2023: none). The table below summarises the annual lease costs.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Depreciation expense	**385**	239
Interest expense	**56**	31
Low-value lease expense	**441**	370
Short-term lease expense	**65**	57

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

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Due within one year	**376**	333
Due between one and five years	**326**	574
	702	907

24. Deferred consideration

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Payable within one year	**2,279**	1,227
Payable within two to five years	**–**	2,012
	2,279	3,239

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.

24. Deferred consideration continued

In the year ended 31 March 2024, the first deferred consideration condition was met resulting in a £1,500,000 payment to the vendors. The second and final deferred consideration conditions have a total fair value of £2,045,000 as at 31 March 2024, and are payable upon the following conditions being met:

- 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 4 December 2024, is achieved. Satisfaction of this target triggers £1,500,000 contingent consideration payable to the vendors.

Identified within the post-acquisition measurement period, further consideration totalling £234,000 may become payable to the vendors and so has been included in the deferred consideration amount due and goodwill as at 31 March 2023 and 31 March 2024.

The undiscounted value of remaining contingent consideration payments that the Group could be required to make is up to £2,734,000. Movement in the fair value of the FDC deferred consideration during the year ended 31 March 2024 has resulted in a charge to the consolidated statement of comprehensive income of £540,000.

25. Deferred taxation

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Deferred tax liability	**3,792**	4,540

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 2024, 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 2024		31 March 2023	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**446,581,202**	**4**	440,109,707	4
Issue of share capital during the year	**98,321**	**–**	6,471,495	–
As at the end of the year	**446,679,523**	**4**	446,581,202	4

On 29 September 2023, 98,321 new Ordinary shares were issued to satisfy the exercise of employee share options. These new shares were admitted to trading on the AIM market of the London Stock Exchange on 5 October 2023.

During the year, 10,379,708 Ordinary shares were repurchased into a treasury reserve, see note 28. The outstanding Ordinary shares as at 31 March 2024, being 436,319,815, are entitled to one vote each and have equal rights as to dividends. The Ordinary shares are not redeemable.

27. Share premium

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
As at the beginning of the year	**83,744**	81,644
Premium arising on the issue of Ordinary shares	**31**	2,100
As at the end of the year	**83,775**	83,744

The premium on the issue of Ordinary shares arises from 98,321 new Ordinary shares of £0.00001 each on 29 September 2023.

28. Treasury reserve

	31 March 2024		31 March 2023	
	Number	**£'000**	Number	£'000
As at the beginning of the year	**–**	**–**	–	–
Purchase of Ordinary shares into treasury	**10,379,708**	**3,194**	–	–
Satisfaction of employee share options	**(20,000)**	**(6)**	–	–
As at the end of the year	**10,359,708**	**3,188**	–	–

29. Other distributable reserve

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
As at the beginning of the year	**63,266**	66,919
Dividends paid (note 13)	**(3,928)**	(3,653)
As at the end of the year	**59,338**	63,266

30. Share-based payments reserve

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
As at the beginning of the year	**4,566**	3,517
Charge for the year	**1,002**	1,049
Exercise of share options	**(12)**	–
As at the end of the year	**5,556**	4,566

31. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2024 was £979,000 (2023: £856,000). As at 31 March 2024, contributions amounting to £15,000 (2023: £11,000) had not yet been paid over to the plans and are recorded in other payables – see note 22.

32. 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 41 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.

32. Financial risk management continued

Categories of financial instruments continued

The carrying amounts of financial assets and financial liabilities in each category are as follows:

As at 31 March 2024	FVTPL £'000	Amortised cost £'000	Total £'000
Long-term financial assets	**116,861**	**–**	**116,861**
Trade and other receivables	**–**	**1,522**	**1,522**
Cash and cash equivalents	**–**	**46,940**	**46,940**
Short-term financial assets	**–**	**48,462**	**48,462**
Total financial assets	**116,861**	**48,462**	**164,993**
Trade and other payables	**–**	**(1,625)**	**(1,625)**
Accruals	**–**	**(5,254)**	**(5,254)**
Lease liabilities	**–**	**(702)**	**(702)**
Deferred consideration	**(2,279)**	**–**	**(2,279)**
Total financial liabilities	**(2,279)**	**(7,581)**	**(9,860)**

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)

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, these 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, whilst 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 borrowings and as such, has fully mitigated this risk.

Liquidity risk

Cash and cash equivalents include cash in hand, deposits held with UK banks with original maturities of less than three months, and a highly liquid money-market fund which is convertible to a known amount of cash and subject to an insignificant risk of a change in value. Short-term liquidity investments in the prior year comprised cash on 95-day deposit with a UK bank.

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

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

As at 31 March 2024	**On demand £'000**	**Less than 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**Total £'000**
Trade payables	**–**	**272**	**–**	**–**	**272**
Other payables	**–**	**8,616**	**–**	**–**	**8,616**
Deferred consideration (note 24)	**–**	**–**	**2,734**	**–**	**2,734**
Lease liabilities	**–**	**95**	**282**	**381**	**758**
	–	**8,983**	**3,016**	**381**	**12,380**

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

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 its trading activities. The Group's maximum exposure to credit risk is limited to the carrying amount of trade receivables net of provisions and cash and cash equivalents as at 31 March 2024, as summarised below:

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Net trade receivables	**889**	1,652
Other receivables	**633**	268
Cash at bank and in hand	**46,940**	37,555
Short-term liquidity investments	**–**	279
	48,462	39,754

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 2024, an amount of £760,000 (2023: £550,000) has been estimated as a loss allowance in accordance with IFRS 9. The credit risk of cash and cash equivalents is limited by the use of reputable UK banks and financial institutions with high-quality external credit ratings and as such is considered negligible. All cash and cash equivalents are held with banks and financial institutions with at least an 'A' long-term deposit rating as at the year ended 31 March 2024.

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns, whilst 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.

32. Financial risk management continued

Fair value measurements continued

The following table gives information about how the fair values of these financial assets and financial liabilities are determined and presents the Group's assets measured at fair value as at 31 March 2024. 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 2024 £'000	As at 31 March 2023 £'000
Assets:		
Financial assets at fair value through profit or loss – direct investment portfolio		
Level 1	**782**	969
Level 2	**–**	–
Level 3	**116,079**	135,581
	116,861	136,550

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Liabilities:		
Financial liabilities at fair value through profit or loss – deferred consideration		
Level 1	**–**	–
Level 2	**–**	–
Level 3	**2,279**	3,239
	2,279	3,239

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 2024.

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 22.

33. 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 56. Directors' shareholdings in the Group are disclosed on page 58 of the Remuneration Report.

34. Ultimate controlling party

The Group has no single ultimate controlling party.

35. Post balance sheet events

On 30 May 2024, Mercia decided to cease further funding into Impression Technologies Limited. As at 31 March 2024, the carrying value of the Mercia's investment in Impression Technologies Limited is valued at £nil.

Company balance sheet
As at 31 March 2024

	Note	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Assets			
Non-current assets			
Property, plant and equipment	40	**95**	98
Right-of-use assets	41	**136**	176
Investments in subsidiary undertakings	42	**59,193**	59,193
Trade and other receivables	43	**44,000**	49,500
Total non-current assets		**103,424**	108,967
Current assets			
Trade and other receivables	43	**33,031**	36,234
Short-term liquidity investments		**–**	279
Cash at bank and in hand		**23,365**	10,229
Total current assets		**56,396**	46,742
Total assets		**159,820**	155,709
Current liabilities			
Trade and other payables	44	**(1,625)**	(691)
Lease liabilities	45	**(90)**	(131)
Deferred consideration		**(2,279)**	(1,227)
Total current liabilities		**(3,994)**	(2,049)
Non-current liabilities			
Trade and other payables	44	**(3,650)**	–
Lease liabilities	45	**–**	(90)
Deferred consideration		**–**	(2,012)
Total non-current liabilities		**(3,650)**	(2,102)
Total liabilities		**(7,644)**	(4,151)
Net assets		**152,176**	151,558
Equity			
Issued share capital	46	**4**	4
Share premium	46	**83,775**	83,744
Treasury reserve	47	**(3,188)**	–
Other distributable reserve	48	**59,338**	63,266
Retained earnings		**6,691**	(22)
Share-based payments reserve	49	**5,556**	4,566
Total equity		**152,176**	151,558

The Company's profit for the year was £6,713,000 (2023: loss of £1,259,000).

The notes on pages 97 to 102 are an integral part of these financial statements.

The Company financial statements of Mercia Asset Management PLC, registered number 09223445, on pages 95 to 102 were approved by the Board of Directors and authorised for issue on 1 July 2024. 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 2024

	Issued share capital (note 46) £'000	Share premium (note 46) £'000	Treasury reserve (note 47) £'000	Other distributable reserve (note 48) £'000	Retained earnings £'000	Share-based payments reserve (note 49) £'000	Total £'000
As at 1 April 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**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**6,713**	**–**	**6,713**
Purchase of Ordinary shares into treasury	**–**	**–**	**(3,194)**	**–**	**–**	**–**	**(3,194)**
Dividends paid	**–**	**–**	**–**	**(3,928)**	**–**	**–**	**(3,928)**
Exercise of share options	**–**	**31**	**6**	**–**	**–**	**(12)**	**25**
Share-based payments charge	**–**	**–**	**–**	**–**	**–**	**1,002**	**1,002**
As at 31 March 2024	**4**	**83,775**	**(3,188)**	**59,338**	**6,691**	**5,556**	**152,176**

36. 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 employees of the Company, whereby recipients render services in exchange for shares or rights over shares, are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company reviews its estimate. The impact of any revision of original estimates is recognised in the income statement, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 6 to the consolidated financial statements.

Cash, cash equivalents and short-term liquidity investments

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of less than three months, readily convertible to known amounts of cash and subject to an insignificant risk of a change in value.

Short-term liquid investments with a maturity of between three and 12 months are included in a separate category, 'short-term liquidity investments'.

37. 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.

38. 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:

a. 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);
b. IFRS 7 Financial Instruments disclosures;
c. IAS 7 Statement of Cash Flows;
d. 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;
e. IAS 24 Related Party Disclosures; requirement to disclose related party transactions entered into between members of a group; and
f. 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).

39. 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.

40. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2022	42	39	443	524
Additions	–	–	56	56
As at 31 March 2023	**42**	**39**	**499**	**580**
Additions	**–**	**–**	**61**	**61**
As at 31 March 2024	**42**	**39**	**560**	**641**
Accumulated depreciation				
As at 1 April 2022	30	38	352	420
Charge for the year	5	1	56	62
As at 31 March 2023	**35**	**39**	**408**	**482**
Charge for the year	**3**	**–**	**61**	**64**
As at 31 March 2024	**38**	**39**	**469**	**546**
Net book value				
As at 1 April 2022	12	1	91	104
As at 31 March 2023	7	–	91	98
As at 31 March 2024	**4**	**–**	**91**	**95**

41. Right-of-use assets

	Property £'000
Cost	
As at 1 April 2022 and 31 March 2023	**702**
Addition	**102**
As at 31 March 2024	**804**
Accumulated depreciation	
As at 1 April 2022	387
Charge for the year	139
As at 31 March 2023	**526**
Charge for the year	**142**
As at 31 March 2024	**668**
Net book value	
As at 1 April 2022	315
As at 31 March 2023	176
As at 31 March 2024	**136**

42. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2022	49,133
Acquisition of subsidiary	10,060
As at 31 March 2023 and 31 March 2024	**59,193**

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.

42. Investments in subsidiary undertakings continued

Details of the Company's subsidiary undertakings as at 31 March 2024 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 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%	Dormant
Mercia Regional Ventures Limited	England	100%	Fund management company
Enterprise Ventures (General Partner Coalfields Growth) Limited	England	100%	General partner
Enterprise Ventures (General Partner EV Growth) Limited	England	100%	General partner
Enterprise Ventures (General Partner EV Growth II) Limited	England	100%	General partner
Enterprise Ventures (General Partner EVG II North West) Limited	England	100%	General partner
Enterprise Ventures (General Partner FY Seedcorn) Limited	England	100%	General partner
Enterprise Ventures (General Partner Midlands POC) Limited	England	100%	General partner
Enterprise Ventures (General Partner NE Venture) Limited	England	100%	General partner
Enterprise Ventures (General Partner NPIF YHTV Equity) Limited	England	100%	General partner
Enterprise Ventures (General Partner NW Venture) Limited	England	100%	General partner
Enterprise Ventures (General Partner RisingStars II) Limited	England	100%	General partner
MRV (General Partner MEIF II – Equity EM) Limited	England	100%	General partner
MRV (General Partner MEIF II – Equity WM) Limited	England	100%	General partner
MRV (General Partner NPIF II – Equity YH) Limited	England	100%	General partner
EV Business Loans Limited	England	100%	Intermediate holding company
Mercia Business Loans Limited	England	100%	Fund management company
MBL (General Partner NPIF II – Debt YH) Limited	England	100%	General partner
EVBL (General Partner FY Small Loans) Limited	England	100%	General partner
EVBL (General Partner EV SME Loans) Limited	England	100%	General partner
EVBL (General Partner EV SME Loans II) Limited	England	100%	General partner
EVBL (General Partner NPIF Y&H Debt) Limited	England	100%	General partner
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 Limiter	England	100%	General partner
FDC (General Partner MEIF II – Debt WM) 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.

43. Trade and other receivables

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**32,502**	36,007
Other debtors	**88**	37
Prepayments and accrued income	**441**	190
Current assets	**33,031**	36,234
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**44,000**	49,500
Non-current assets	**44,000**	49,500

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.

44. Trade and other payables

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Amounts falling due within one year:		
Trade payables	**138**	86
Accruals, deferred income and other payables	**1,487**	605
Current liabilities	**1,625**	691
Amounts falling due after more than one year:		
Amounts due to subsidiary undertaking	**3,650**	–
Non-current liabilities	**3,650**	–

45. 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 2024 £'000	Year ended 31 March 2023 £'000
Depreciation expense	**142**	139
Interest expense	**5**	10
Short-term lease expense	**81**	65
Low-value lease expense	**51**	45

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

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Due within one year	**90**	131
Due between one and five years	**–**	90
	90	221

The undiscounted lease liability due within one year is £91,000 (2023: £137,000), and £nil (2023: £91,000) between one and five years.

46. 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.

47. Treasury reserve
The movements in the treasury reserve are disclosed in note 28 to the consolidated financial statements.

48. Other distributable reserve
The movements in other distributable reserve are disclosed in note 29 to the consolidated financial statements.

49. Share-based payments reserve
The movements in share-based payments reserve are disclosed in note 30 to the consolidated financial statements.

50. 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 2024 £'000	Year ended 31 March 2023 £'000
Central functions	**9**	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 2024 £'000	Year ended 31 March 2023 £'000
Wages and salaries	**1,284**	895
Social security costs	**203**	133
Other pension costs (note 51)	**54**	49
	1,541	1,077

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 53 to 58 of this Annual Report.

51. Retirement benefit schemes
The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2024 was £54,000 (2023: £49,000). As at 31 March 2024, no contribution payments were outstanding (2023: £nil).

52. 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 33 of the consolidated financial statements details the Group's related party transactions.

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

54. Post balance sheet events
On 29 May 2024, the Company completed a share buyback programme with 15,706,088 Ordinary shares purchased into treasury at a total cost of £5,030,000 including fees. As part of this share buyback programme, 10,379,708 Ordinary shares at a cost of £3,194,000 had been purchased into treasury during the year to 31 March 2024.

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
Henley-in-Arden
Warwickshire B95 5AA

Independent auditor
BDO LLP
55 Baker Street
Marylebone
London W1U 7EU

Principal bankers
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham B4 6GN

Lloyds Bank plc
125 Colmore Row
Birmingham B3 3SD

Company registration number
09223445

Company registrar
Equiniti Ltd
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

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

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

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

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

Notice of Annual General Meeting

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

Notice is hereby given that the Annual General Meeting ("AGM") of Mercia Asset Management PLC (the "Company") will be held at the offices of Rothschild & Co, New Court, St Swithin's Lane, London, EC4N 8AL on 26 September 2024 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 12 and resolution 15 as ordinary resolutions and resolutions 13,14 and 16 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 2024 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2024.
3. That Ian Metcalfe OBE, who retires as a Director and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
4. That Dr Mark Payton, who retires as a Director 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 Martin Glanfield, who retires as a Director 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 Julian Viggars, who retires as a Director and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
7. That Diane Seymour-Williams, who retires as a Director and being eligible to do so, offers herself for re-election as a Director, be re-elected as a Director of the Company.
8. That Dr Jonathan Pell, who retires as a Director and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
9. That Caroline Plumb OBE, who retires as a Director and being eligible to do so, offers herself for re-election as a Director, be re-elected as a Director of the Company.
10. 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.
11. 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 £431.09, 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 2025 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.
12. That a final dividend of 0.55 pence per Ordinary share for the year ended 31 March 2024 be declared.

Special resolutions

13. That, subject to the passing of resolution 11, 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 11, 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 £431.09, 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 2025 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.
14. 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 43,109,572;
    b. the minimum price which may be paid for an Ordinary share is 0.001 pence; and
    c. the maximum price which may be paid for an Ordinary share is the higher of: (i) 5% above the average of the mid-market value of the Ordinary shares for the five business days before the purchase is made; and (ii) the higher of the last independent trade and the highest current independent bid for any number of Ordinary shares on the trading venue where the purchase is carried out.

    The authority conferred by this resolution will expire on the earlier of the conclusion of the next AGM of the Company and 30 September 2025 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.

Special business

Ordinary resolution

15. That the Company ceases to be an 'investing company' under the AIM Rules for Companies.

Special resolution

16. That the Mercia Asset Management PLC 2024 Share Plan (the "2024 Plan") be approved.

By order of the Board of Directors.

Sarah-Louise Williams
Company Secretary
26 July 2024

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 24 September 2024 (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, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA 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 24 September 2024 (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 24 September 2024 shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
7. A corporation, which is a member, can appoint one or more corporate representatives who may exercise, on its behalf, all of its powers as a member provided that no more than one corporate representative exercises powers over the same share.
8. As at 26 July 2024, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 431,095,729 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 26 July 2024 is 431,095,729.

Miscellaneous

9. Copies of the Directors' service contracts, letters of appointment and draft rules of the 2024 Plan are available for inspection by shareholders at the registered office of the Company during normal business hours from 26 July 2024 and will be available for inspection at the place where the AGM 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 2024.
2. Resolution 2 – the shareholders are requested to approve the Remuneration Report for the year ended 31 March 2024.
3. Resolutions 3 to 9 – retirement of Directors, in accordance with the new QCA Code, at each AGM, all directors shall retire annually and submit themselves for re-election by shareholders.
4. Resolution 10 – auditor re-appointment and remuneration – at each meeting at which the Company's accounts are presented to its shareholders, the Company is required to appoint an auditor to serve until the next such meeting and seek shareholder consent for the Directors to set the remuneration of the auditor.
5. Resolution 11 – 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 2025 and 30 September 2025 (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 £431.09 (representing 10% of the issued Ordinary share capital of the Company as at 26 July 2024 (the latest practicable date prior to the publication of this document)).
6. Resolution 12 – 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, if approved, be paid on 1 November 2024 to the holders of Ordinary shares on the Register of Members at the close of business on 4 October 2024.
7. Resolution 13 – 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 £431.09 (representing 10% of the issued Ordinary share capital of the Company as at 26 July 2024 (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 2025 and 30 September 2025 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
8. Resolution 14 – market purchases – the Directors are requesting authority for the Company to make market purchases of up to 43,109,572 Ordinary shares (representing 10% of the issued Ordinary share capital of the Company as at 26 July 2024 (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 price of the last independent trade and the highest current independent bid at the time of purchase.
9. Resolution 15 – ceasing to be an AIM investing company – The Chair's statement at pages 2 to 4 sets out details of the Directors' intention to focus on the Company's third-party managed funds and to no longer make balance sheet investment into new assets. This would result in the Company being characterised as a trading company and no longer an investing company under the AIM Rules. As such, the Directors recommend that shareholders approve the Company ceasing to be an investing company under the AIM Rules. This resolution is being proposed as an ordinary resolution.
10. Resolution 16 – approval of the Company's Employee Share Plan – the shareholders are requested to approve the rules of the 2024 Plan which are summarised in the Appendix to this Notice and which is in accordance with Company's Directors' Remuneration Policy. Shareholders are requested to authorise the Directors to do all such acts and things necessary or desirable to bring the 2024 Plan rules into effect. The 2024 Plan is a new employee share plan to replace the Mercia Asset Management PLC 2014 Company Share Option Plan, which is due to expire on 7 December 2024.

Appendix – Summary of The Mercia Asset Management PLC 2024 Employee Share Plan (“2024 Plan”)

The Board proposes to adopt the 2024 Plan which is in accordance with the Company’s Directors’ Remuneration Policy. The 2024 Plan is a new employee share plan to replace the Mercia Asset Management PLC 2014 Company Share Option Plan, which is due to expire on 7 December 2024.

The final draft rules of the 2024 Plan are available for inspection by shareholders at the registered office of the Company during normal business hours from 26 July 2024 and will be available for inspection at the place where the AGM is being held from 15 minutes prior to and during the meeting.

Please note that this summary does not form part of the rules of the 2024 Plan. In the event of any discrepancy between this summary and the rules of the 2024 Plan, the rules of the 2024 Plan will prevail.

The following is a summary of its principal features:

1.General

The 2024 Plan is a discretionary plan which provides for the grant to selected employees and executive directors of the Group, of rights:

(a) to acquire Ordinary shares in the form of (i) options with a nil or nominal value or market value exercise price (unapproved options) or options under Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003 under the company share option plan part of the 2024 Plan (“CSOP Options”) (together “Options”); or (ii) conditional rights to acquire Ordinary shares (“Conditional Share Awards”); or

(b) to be paid in cash based on the market value of a specified number of Ordinary shares (“Phantom Awards”);

(together, the “Awards”).

Awards are non-transferable (except on death) and are not pensionable.

2. Administration

The 2024 Plan will be operated and administered by the Remuneration Committee (“Committee”) which will make all decisions about participation, form, size and timing of grants of Awards.

3. Eligibility

The Committee has complete discretion as to the selection of employees and executive directors of the Group to whom Awards may be made.

CSOP Options may only be granted to those selected employees who meet the legislative requirements.

4. Grant of Awards

Awards may be granted within the period of 42 days commencing on either the date of adoption of the 2024 Plan or the dealing day following the end of a closed period. They may also be granted at other times in exceptional circumstances which the Committee considers justify the granting of Awards, but not during a closed period.

No Award may be granted more than 10 years after the adoption date of the 2024 Plan.

No consideration is payable for the grant of an Award.

A CSOP Option will have an exercise price that represents the market value of the Ordinary shares on the date of grant.

5. Individual limits

The maximum aggregate market value of the Ordinary shares subject to subsisting CSOP Options held by an individual at any time may not exceed £60,000 (or such other limit as prescribed by legislation).

6. Limits on the issue of Ordinary shares

The number of Ordinary shares which may be issued under the 2024 Plan together with all the other share plans of the Group will be restricted to 10% of the Company’s issued share capital in any rolling ten-year period.

Ordinary shares which are purchased from the market to satisfy Awards or Ordinary shares subject to awards which are released or lapsed without being exercised are excluded for the purposes of calculating the limit.

7. Performance Conditions and Vesting

The Committee may at its discretion set objective performance conditions to determine whether or the extent to which an Option will vest (“Performance Conditions”). Performance Conditions may be adjusted if any event occurs which causes the Committee to decide that the adjusted conditions will measure performance more fairly and provide a more effective incentive.

An Award will normally vest three years (or such later date as is determined by the Committee at the date of grant) from the date of grant of the Award (following the Committee determining the extent of which the Performance Conditions (if any) have been satisfied) unless it lapses earlier as set out in 8 below.

8. Cessation of Employment

If a participant ceases to be employed by any member of the Group by reason of death, injury or disability, redundancy, retirement (with the agreement of the Board), TUPE transfer or the entity that employs the participant ceasing to be under the control of the Company or for any other reason, if the Committee so determines, unvested Awards will vest taking into account the (i) the period of time that has elapsed since the date of grant until the date of change of control, and (ii) to the extent to which any Performance Conditions have been satisfied at that time.

In the case of an option, it may be exercised:

(a) by the personal representative of the participant within a period of twelve months from the date of death of the participant; or
(b) at any time within a period of six months from the end of the third anniversary of the date of grant (and in respect of CSOP Options, six months from the end of the cessation of employment, where the participant’s employment has ceased due to any of injury or disability, redundancy, retirement (with the agreement of the Board), TUPE transfer or the entity that employs the participant ceasing to be under the control of the Company).

An Award will lapse in full where the participant ceases to be employed by any member of the Group in circumstances other than those referred to above.

9. Corporate events

In the event of a change of control of the Company, unvested Awards will vest taking into account the (i) the period of time that has elapsed since the date of grant until the date of change of control, and (ii) to the extent to which any Performance Conditions have been satisfied at that time, unless the Committee determines otherwise.

Alternatively, the Committee may, with the consent and agreement of the participant and the acquiror determine that an Award be exchanged for an equivalent award which relate to shares in the acquiring company.

10. Malus and clawback

The Committee may take such steps as it considers appropriate to reduce the number of Ordinary shares subject to an Award (to nil if applicable) and/or impose further conditions (including repayment to the Company of the value of Ordinary shares acquired by the participant (or cash paid to the participant) on the Award in certain circumstances, including but not limited to a material misstatement in any published results of the Group, the participant dismissed for misconduct or reputational damage to the Company.

11. Market Abuse Regulation

The grant, vesting or exercise (as applicable) of an Award are subject to any restrictions on dealing set out in the Market Abuse Regulations or otherwise imposed by statute, order, regulation or government directives.

12. Variation of capital

In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or other variation of the ordinary share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of Ordinary shares subject to an Award and/or the price payable on the exercise of an Option (where the Award takes the form of an Option).

13. Exercise of Options

An Option may be exercised in whole or in part, to the extent that it has vested. To exercise an Option, the participant must pay (or make alternative arrangements with the Company for the payment of) the aggregate exercise price, if any and the tax and NIC liabilities arising on the exercise of the Option.

14. Satisfying the vesting/exercise of Awards

The vesting of a Conditional Share Award and the exercise of an Option may be satisfied by issue of shares or by transfer of treasury shares or by other transfer of shares.

Within 30 days of the vesting of a Conditional Share Award or the exercise of an Option, the Company will issue or procure the transfer of Ordinary shares in satisfaction of the Award. Instead of the issue of Ordinary shares, the Company may decide to satisfy the vesting of a Conditional Share Award and the exercise of an Option by the payment of cash for an amount equal to the market value of the Ordinary shares.

The vesting of a Phantom Award will be satisfied by the payment of cash through the payroll within 30 days of such vesting an amount equivalent to the market value of the Ordinary shares on the date of vesting.

15. Amendment and termination

The 2024 Plan may at any time be altered by the Board on the recommendation of the Committee. However, any alterations to the dilution limits on participation must be approved in advance by shareholders in a general meeting.

An amendment may not adversely affect the existing rights of a participant except with the prior consent of the participant.

No amendment to a key feature of the CSOP part of the 2024 Plan may be made if it would cause the relevant requirements of the CSOP legislation to be breached.

The 2024 Plan will terminate on the tenth anniversary of the date of adoption of the 2024 Plan is adopted or on such earlier date as the Board may determine.

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