

# commercialising tomorrow's technologies

Mercia Technologies PLC / Interim Report 2015

Commercialising tomorrow's technologies  
by investing in the...

...future

Mercia Technologies PLC is one of the leading investment businesses in UK technology, providing a complete capital solution for the commercialisation of pioneering businesses across exciting growth sectors, in which deep expertise is held.



# Highlights

## Group and portfolio developments

- £4.4million invested in 11 portfolio companies during the period, of which four are new emerging stars
- Invested a further £0.8million into VirtTrade and a second tranche of £0.5million into Crowd Reactive
- Invested £0.8million each into new direct investments Edge Case Games, Impression Technologies and LM Technologies
- Circa £6.0million raised by Mercia Fund Management ("MFM") in third party EIS/SEIS funds to invest in developing the early stage pipeline

## Post period end

- A further £4.2 million invested post period end, including £1.0million into a new emerging star, Intelligent Positioning, bringing the total invested since IPO to over £20.0million
- Samsung's Gear VR headset launched in the US with initial stocks selling out. nDreams' game Gunner and experience Perfect Beach both run on Gear VR and can be downloaded from the Oculus store via Samsung smartphones
- Major Chinese games publisher and developer Season Games co-invested into Edge Case Games
- Additional university partnerships secured with the University of Strathclyde and Abertay University
- New office opened in Edinburgh to support Scottish deal flow and new university partners

## Financial highlights

- Investment portfolio fair value up by £4.6million to £29.2million
- Net assets of £80.2million
- Cash and short-term liquidity investments of £48.5million
- Post-tax loss of £0.8million

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# Chief executive officer review

**Dr Mark Payton**  
Chief Executive Officer



This has been an important period for the Group as Mercia continues to execute its plan of regional expansion across the Midlands, the North of England and into Scotland. Mercia has been increasing the quantum of third party funds under management to support its proprietary deal flow of future emerging stars, carefully building a team of industry leading investment professionals, accelerating the growth of the direct investment portfolio and scaling Mercia's Complete Capital Solution.

Financial performance was on plan, with the Group reporting revenues for the period of £0.7million, mainly generated from investment activity and fund management fees derived from MFM's third party funds under management. Valued in accordance with International Private Equity Venture Capital Valuation Guidelines, the direct investment portfolio increased 19% in value to £29.2million, which included new investments totalling £4.4million and net fair value gains of £0.2million. The Group made a loss after tax of £0.8million in the period. There are no comparative figures for the six months to 30 September 2014, as Mercia Technologies was incorporated on 17 September 2014 and remained dormant throughout the period from incorporation to 30 September 2014.

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**Mercia Technologies has already invested over £20.0million of its IPO proceeds across a diversified portfolio and sees this annual rate of new investment continuing in 2016 and beyond**

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## The Mercia Model

Mercia's vision is to become a leading national player in the creation, funding and development of technology businesses with an emphasis on the Midlands, the North of England and Scotland; regions which the Directors believe have been historically underserved by investment capital, compared to the South of England.

Mercia's strategy includes:

- expanding the Mercia team through recruitment of experienced professionals with successful exit track records within its sector focus;
- continuing to develop relationships with universities, accelerators and incubators;
- seeking acquisition of complementary businesses;
- increasing its geographic reach; and
- continuing to use its MFM third party fund management platform to invest seed, early stage and development capital into new ventures which are expected to achieve meaningful commercial traction within reasonable timescales, whilst not requiring significant capital to do so.

## Sector focus

Mercia invests in some of the highest growth sectors of the UK economy. Currently, the Group is focused on the following four sectors:

- Software, Electronics and Hardware
- Digital Entertainment
- Advanced Materials, Engineering and Specialised Manufacturing
- Life Sciences

## Regional footprint

Investing nationally with a particular focus on the Midlands, the North of England and Scotland, Mercia believes that a regional footprint is central to delivering its model of supporting and investing in early stage technology companies. Through this regional footprint, the Group interacts with a growing number of university partners who are providing circa 50% of new deal flow into MFM. Mercia's Midlands office connects directly into nine Midlands-based universities and with the recent opening of a Scottish office in Edinburgh, Mercia is able to support two new university partners, the University of Strathclyde and Abertay University.

## University partners

Mercia Technologies' 11 university partners collectively receive research income of approximately £330.0million per annum. Of the two new additions to Mercia's partnership model, the University of Strathclyde benefits from over £50.0million of research income per annum, with relevant research areas to Mercia being biomedical engineering, electronics, computer and information sciences. The university receives in excess of 30 new invention disclosures per year. Abertay University is one of the leading research universities in the cyber security and digital sectors.



# Chief executive officer review **review** continued

## **The Complete Capital Solution**

To achieve its strategic objectives, Mercia has developed an investment model which contains the following features:

- deal flow is not tied to any one institution or source
- non-exclusive relationships with university partners facilitate Mercia's proactive approach of selectively seeking investments within chosen technology sub-sectors, across a wider academic network
- the use of third party funds to build a portfolio of early stage and developing companies
- a focus on driving portfolio companies into revenue
- direct investment into those companies which become emerging stars
- revenue generation through Mercia's own investment activity. Through its direct investment and third party fund management fee generation Mercia will seek, in the medium term, to match its operating cost base with income sources, thus ensuring that the vast majority of the capital raised on AIM is deployed for direct investment and corporate growth purposes
- syndicated investment. Mercia is typically the lead provider of capital, but also invests alongside others.

## **Third party funds - Mercia Fund Management ("MFM")**

Mercia Technologies is differentiated from its comparators by having over £27.0million of funds under management by MFM, from which it invests in its growing early stage portfolio. As portfolio companies mature, suitable candidates receive direct investment from Mercia Technologies. In terms of growth in portfolio value, the third party funds under management by MFM continue to outperform industry averages.

## **Direct investment portfolio**

The funnelling of some 1,000 business plans received per annum into MFM has resulted in approximately 45 active MFM portfolio companies to date. Thus far this has yielded 18 direct investments, highlighting the focus operated at Mercia, as resource is concentrated on opportunities which the Group believes will become high value investments.

## **Our people**

Mercia uses in-house industry insight to identify investment opportunities within its chosen technology sectors and sub-sectors. Each sector is led by an investment director with relevant and deep industry experience. In addition, Mercia has also grown a team of technology transfer specialists, led by investment director Dr Nicola Broughton, who work with university and incubator partners to identify new spinout investment opportunities. Working together with a balanced Board of experienced Executive and Non-executive Directors, Mercia has created a highly effective and scalable business model and investment pipeline.

## **Outlook**

Whilst acknowledging the risks inherent in commercialising young technology businesses, Mercia is confident that its Complete Capital Solution investment model will yield, over time, a number of significant value enhancing exits. With increasing third party funds under management MFM can continue to support and build the early stage portfolio of young technology companies, with the expectation that a number will develop into compelling direct investment emerging stars. MFM's ability to raise adequate annual third party capital ensures that shareholders' capital is deployed in increasing the number and value of those emerging stars.

The Board is encouraged by the progress being made throughout the direct investment portfolio, with the majority of investee company revenues being derived from exported products and services. With virtual reality ("VR") hardware (most of which nDreams is partnered with) coming onto the market from the fourth quarter of this year onwards, Mercia believes nDreams is well placed to start selling its VR games and experiences globally. Science Warehouse, LM Technologies and Allinea Software are all continuing to grow sales. Crowd Reactive is also seeing revenues grow rapidly, with its New York office now accounting for some 80% of new business.

With a continued focus on balance across the direct investment portfolio, the Board believes that Mercia Technologies is well placed to continue scaling its differentiated investment model. At the time of its December 2014 IPO, Mercia estimated that during its first 12 months on AIM the Group would invest approximately £17.0million in new and existing emerging stars. As at the date of this Interim Report, Mercia Technologies has already invested over £20.0million of its IPO proceeds and sees this annual rate of new investment continuing into 2016 and beyond.

Finally, Mercia's strategy also involves the detailed evaluation of potential acquisition opportunities which are complementary to Mercia's Complete Capital Solution investment model. This evaluation process will continue in 2016.

**Dr Mark Payton**  
Chief Executive Officer



Crowd Reactive's social media feeds at Twickenham during the Rugby World Cup 2015



Crowds queue for over two hours to play nDreams' The Assembly game at the EGX conference in Birmingham on Thursday 24 September 2015



Edge Case Games founders signing the investment and collaboration agreements with Tony Ji Zeng from Kingsoft Corporation, alongside Ed Vaizey (Minister of State for Culture, Communications and Creative Industries) during the visit of China's President Xi Jinping

# Chief investment officer review

## Matt Mead

Chief Investment Officer



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**The Group has been very active during the six months to 30 September 2015**

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The Group has been very active during the six months to 30 September 2015, making direct investments in 11 companies. In this period the portfolio has grown from 14 direct holdings as at 31 March 2015 to 18 as at 30 September 2015 (plus eight active investments held within Mercia Fund 2 (“MF2”). The Group will add to the direct investment portfolio during the next six months and has already invested £4.2million in one new and six existing emerging stars in the period since 30 September 2015.

The direct investments and holdings currently within MF2 were held at a combined value of £29.2million on 30 September 2015, which is up from £24.6million at 31 March 2015. This movement in value is driven by £4.4million of new capital invested and £0.2million of net upward fair value movements. Large fair value movements will not always occur in each six month reporting period, as the direct investment portfolio is at a relatively early stage in its investment cycle and development. However, even at this point in Mercia’s evolution, the Board is confident that the direct investment portfolio already includes businesses with strong value creation potential.

The 12 leading direct investments discussed in more detail below account for £24.2million (82.9%) of the carrying value of the entire investment portfolio of companies (including the



holdings currently held by MF2). Across the entire portfolio £18.2million (62.3%) is invested in the Software, Electronics and Hardware sector, £6.5million (22.3%) in Digital Entertainment, £2.0million (6.8%) in Advanced Materials, Engineering and Specialised Manufacturing and £2.5million (8.6%) in Life Sciences. The active balancing of the direct investments portfolio (by value and number) to ensure that no one company, or in time sector, over weights the portfolio will continue so as to ensure that risk mitigation is optimised. As an example of this proactive approach, the weighting of Software, Electronics and Hardware has reduced in the period under review.

It is anticipated that before Mercia Technologies' next year end the eight active investments in MF2 (of which six are already direct investments) will also become direct investment holdings, as MF2 is wound up. As at 30 September 2015, these were collectively valued at £4.2million.

It remains the Board's intention to build a portfolio broadly spread across the Group's four technology sectors, in which Mercia has both technical expertise and the hands-on experience within the team of creating, growing and exiting businesses. A review of the 12 leading investments by value is given below.

### Software, Electronics and Hardware

This is currently the leading sector for the Group. Mercia's university partners and incubators have been, and continue to be, an excellent source of investment prospects for MFM and for the Group's direct investment strategy. The UK has a strong legacy of innovation and invention in the software, electronics and hardware sectors and today these are significant parts of its economy.

During the six months ended 30 September 2015 key portfolio developments in this sector included:

### Science Warehouse

As at 30 September 2015, the Group held a 62.6% direct interest in Science Warehouse at a fair value of £12.7million. As there was no valuation event during the period the value of this investment remains unchanged from 31 March 2015.

Founded in 2000 and a Leeds University spinout, Science Warehouse delivers a cloud-based procurement, catalogue and spend analysis platform with a highly intuitive user interface, giving its customers control of the purchasing cycle from requisition to payment, helping deliver cost savings and manage spend.

Mercia invested £3.6million in March 2015 to increase the Group's holding and to fund further development of the management team and enhance the company's technology platform. Good progress is being made in both of these areas and Science Warehouse is trading on plan for its half year, winning additional new customers Worcester Health & Care Trust, Wandsworth Council and the Defence, Science & Technology Laboratories. The company's management team has been strengthened by the appointment of a chief technology officer and full time financial controller. Completion of the new senior management team is anticipated during the second half of its financial year.

### Allinea Software

As at 30 September 2015, the Group (including an ownership interest currently held within MF2) held a combined 19.8% direct shareholding in Allinea at a combined fair value of £2.1million, which includes a fair value increase during the period of £0.1million, based upon latest trading results. During the period Mercia invested £17,000 to take up its pre-emption entitlement from selling minority shareholders. Including holdings within the MFM funds, combined with its own direct and MF2 shareholding, the Group held 34.6% of the equity at the period end.

# Chief investment officer **review** continued

Founded in 2009 and a spinout from one of Mercia's partner universities, the University of Warwick, Allinea is a profitable, cash generative business providing a global leading solution in the optimisation and debugging software tools industry for the development and use of high performance computing applications. Revenues, profits and cash continue to increase as Allinea grows its worldwide customer base.

## **Crowd Reactive**

As at 30 September 2015, the Group held a 20.5% direct shareholding in Crowd Reactive at a fair value of £1.0million. During the period the Group invested a second £0.5million tranche to enable the business to continue to scale its operations internationally. The investment is held at cost. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 29.8% of the equity at the period end.

Founded in 2013, Crowd Reactive is a business derived from one of Mercia's partner incubators. Originally supported via the MFM funds prior to becoming a direct investment in March 2015, Crowd Reactive creates a direct interaction between attendees and large multi-media screens at multiple types of events, with the crowd entertained by pictures and video from their smartphones. Premium features include content moderation, reach analysis and on-site Instagram printing.

The early success of this sophisticated, integrated software platform led to its rapid deployment nationally and, following Mercia's initial investment, Crowd Reactive expanded into the US with the opening of an office in New York. Clients using its technology platform include O2, Nike, Coca Cola, Chevrolet, Vogue, Audi, Ferrari, Starbucks, Southern Comfort and the RFU. Crowd Reactive's revenues are growing rapidly and the business recently announced the appointment of Will Whitehorn, the former president of Virgin Galactic, as non-executive chairman. Will brings a wealth of experience in brand development and business building, which will be a great asset to Crowd Reactive.

## **LM Technologies**

Mercia made its first direct investment into LM Technologies in July 2015 when it invested

£0.8million, building on a stake already held via MF2. As at 30 September 2015 the Group's direct shareholding (including the ownership interest currently held within MF2) was 37.1% with a combined fair value of £1.4million, held at the price of the recent investment round. Mercia first invested in LM Technologies in 2008 through its MFM funds. Including holdings within the MFM funds, combined with its own direct and MF2 shareholding, the Group held 63.1% of the equity at the period end.

LM Technologies designs, develops and manufactures wireless modules and adaptors, enabling the 'Internet of Things' and cable replacement applications. It partners with IC vendors such as Broadcom, Silicon Labs and CSR, which support a range of products in Bluetooth, Wi-Fi, Sigfox, Thread and Zigbee technologies. LM Technologies designs both hardware and firmware enabling a range of solutions which are available through a global network of distributors into a range of industry sectors. Outsourced contract assembly is undertaken in China.

## **Smart Antenna Technologies**

As at 30 September 2015, the Group held a 12.5% direct shareholding in Smart Antenna Technologies ("SAT") at a fair value of £0.6million. During the period the Group invested £0.1million to take up its pre-emption entitlement from a selling shareholder. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 33.4% of the equity at the period end.

Based upon patented technology spun out from the University of Birmingham and developed by founder Sampson Hu, SAT provides an efficient and low cost antenna solution to the mobile and portable device market. SAT's highly scalable technology has the potential to lower costs, reduce size, increase frequency range and offer much needed performance gains over existing designs and technologies. MFM has been an investor in SAT since December 2013.

In October 2015, Mercia invested a further £1.2million alongside other investors, taking its direct shareholding to 29.5%. At the period end, the investment was held at the price of this recent funding round.

## Digital Entertainment

The UK gaming industry contributes circa £1.7billion to the domestic economy. The digital sector comprises a breadth of sub-sectors in which Mercia proactively seeks deal flow, building on its own deep market knowledge and connections.

During the six months ended 30 September 2015 key portfolio developments in this sector included:

### Edge Case Games

This is a new direct investment for the Group which completed in July 2015. As at 30 September 2015 the Group held a 15.6% direct shareholding in Edge Case Games ("ECG") having made an initial investment of £0.8million. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 29.9% of the equity at the period end.

ECG was formed in 2014 by industry veterans James Brooksby and Chris Mehers. ECG brings its expertise and passion for space games to its inaugural title, the tactical space game *Fractured Space*. The game was launched through Steam's gaming marketplace Early Access platform in alpha form in November 2014. The launch generated 400,000 users in the first five months and the team is now working towards a full commercial launch on other platforms in early 2016.

In November 2015, ECG completed a syndicated investment round which included both Mercia and a £1.0million investment by the large Chinese games developer and publishing house Season Games, part of the Hong Kong listed Kingsoft Corporation. The key strategic partnership now in place with Season Games should give ECG the opportunity to gain a strong foothold in the emerging and expanding markets of Asia. MFM first invested in ECG in September 2014 and the business has developed rapidly to become an emerging star.

Mercia invested a further £0.8million alongside Season Games, taking its direct shareholding to 21.2%. At the period end, the investment was held at the price of this recent funding round.

### nDreams

As at 30 September 2015, the Group held a 32.8% direct shareholding in nDreams at a fair value of £1.9million. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 40.5% of the equity at the period end. The investment is held at cost.

Founded in 2006 by Patrick O'Lunaigh, the creative director of *Tomb Raider*, nDreams is a game and experiences developer. Created initially to provide content for Sony PlayStation Home virtual world (a virtual 3D social gaming platform for the PlayStation 3), it later leveraged this expertise to become one of the first players to move into software development for virtual reality ("VR").

nDreams has taken the strategic approach of focusing on two specific categories: VR gaming and VR experiences. It has partnerships with a majority of the leading VR hardware developers and its games and experiences will launch as these devices come to market. In the last six months it has released *Perfect Beach* on the Google Cardboard platform and publicly launched its lead title 'The Assembly' at the EGX 2015 gaming show. The principal high end VR platforms are all expected to launch in the coming months, with market analysts forecasting significant growth over the next five years. Samsung's Gear VR has just launched in the US for \$99 and Amazon.com and BestBuy.com both sold out of their initial stocks almost immediately. nDreams' game *Gunner* and experience *Perfect Beach* both run on Gear VR and can be downloaded from the Oculus store via Samsung smartphones.

nDreams is building a leading software team for the creation of cross platform VR games and experiences. Through a combination of development contracts with leading rights holders and the development of its own intellectual property, nDreams is creating a diversity of revenue streams as the VR market begins to accelerate.

In November 2015 Mercia invested a further £1.0million to capitalise on the opportunity in the emerging VR market, taking its direct shareholding to 40.0%.

# Chief investment officer **review** continued

## **Soccer Manager**

As at 30 September 2015, the Group held a 22.4% direct shareholding in Soccer Manager at a fair value of £1.0million. As there was no valuation event during the period the value of this investment remains unchanged from 31 March 2015. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 34.6% of the equity at the period end.

Preston based Soccer Manager was founded in 2005 and became a direct investment in March 2015. Historically the company developed and published its multi-player game Soccer Manager Worlds. Under MFM's guidance and investment, the company pivoted into a new product venture, Soccer Manager 2015 - a single-player, multi-platform game that delivers a much improved and engaging football management experience in the continually growing global football manager market.

It has recently launched updated editions Soccer Manager 2016 and Soccer Manager Worlds 2016. Daily active users and revenues are continuing to grow as a result of new functionality in the latest versions.

## **VirtTrade**

As at 30 September 2015, the Group held a 28.4% direct shareholding in VirtTrade at a fair value of £2.6million. Mercia invested a further £0.8million into the business in August 2015 to continue funding VirtTrade's growth plans. The Group's investment is held at the price of that recent investment round. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 45.5% of the equity at the period end.

VirtTrade has developed a unique engine that takes the principle of a traditional printed card/sticker album and turns it into an interactive digital trading experience. This results in the players being able to trade one digital card for many globally in an open market. Unlike traditional trading cards, VirtTrade driven cards can take live data feeds from the player, the brand or IP owner and the outside world. This enriches the trading experience as well as providing some exciting and novel opportunities.

VirtTrade has a global relationship with Panini and together they have recently launched NBA Dunk which uses content from the National Basketball Association in the US. Further product launches are planned over the next six months. Monetisation comes from a mix of paid for and free collectable cards, with revenue shared between the image rights holder and VirtTrade. Mercia expects to see evidence of the success of this model during 2016.

## **Advanced Materials, Engineering and Specialised Manufacturing**

This is an attractive market sector, providing annual turnover of some £200billion for the UK economy alone, for companies that produce and process materials.

During the six months ended 30 September 2015 key portfolio developments in this sector included:

### **Impression Technologies**

The Group made its first direct investment into Impression Technologies in July 2015. Mercia invested £0.8million and owns a 12.4% equity stake. The investment is held at cost. Including holdings within the MFM funds, combined with its own direct shareholding, the Group held 24.1% of the equity at the period end.

Impression Technologies specialises in developing technology for forming complex, high-strength, lightweight components for the transportation industry. The company's patented heat treatment, forming and in die quenching ("HFQ®") technology was developed by Impression Technologies and Imperial College, building on founding research at the University of Birmingham. The technology allows a wide range of aluminium alloys, including ultra-high strength grades, to be formed in a fast pressing operation without compromising the strength or metallurgical properties of the material. The result is complex but lightweight components which can be used in the manufacture of cars, trains and aeroplanes. Impression Technologies is a co-investment with Imperial Innovations plc.

### Warwick Audio Technologies

As at 30 September 2015, the Group held a 16.8% direct shareholding in Warwick Audio Technologies ("WAT") (including an ownership interest currently held within MF2) at a combined fair value of £0.7million. In the period under review Mercia invested £0.3million via a convertible loan. The equity valuation is arrived at after accounting for a 50% fair value provision, reflecting a delay in evaluation contracts converting into revenue generating product supply. This valuation methodology remains unchanged from 31 March 2015. Including holdings within the MFM funds, combined with its own direct and MF2 shareholding, the Group held 30.9% of the equity at the period end.

A University of Warwick spinout founded in 2007, WAT has developed a patented electrostatic speaker system with hi-fi quality sound that is extremely light, flexible, cheap to manufacture and uses significantly less power than current speaker technology. Mercia's most recent investment was made to enable ongoing partner technical due diligence and commercial discussions.

### Life Sciences

Mercia's focus within the Life Sciences sector, as with its other technology sectors, is in respect of businesses capable of achieving revenue quickly, whilst requiring relatively modest investment capital. This excludes the capital intensive plays of drug discovery and novel drug development and instead provides a focus on diagnostics, medtech and clinical services. Through its university partnerships, circa 30% of portfolio companies within the MFM funds are from the Life Sciences sector and a number have the potential to become future emerging stars. Currently the leading direct Life Sciences investment within the Group is a holding in The Native Antigen Company.

### The Native Antigen Company

As at 30 September 2015, the Group held a 35.6% direct shareholding in The Native Antigen Company ("NAC") (including an ownership interest currently held within MF2) at a combined fair value of £0.6million. Mercia made a small direct investment of

£0.1million in June 2015, under the terms of an existing syndicated shareholder agreement. The Group's investment is held at the price of that recent investment round. Including holdings within the MFM funds, combined with its own direct and MF2 shareholding, the Group held 61.4% of the equity at the period end.

Established in 2010 and a University of Birmingham spinout, NAC specialises in the research, development and scale up manufacturing of highly pure viral and bacterial native antigens. NAC trades with over 50 organisations worldwide with exports accounting for 90% of its sales, much of which is annual repeat business. Revenues continue to grow and NAC expects to reach positive cash flow within the next 12 months. The next step for the business is to assess accelerated growth opportunities to scale its proven model and expertise.

### Remaining direct investment holdings

As at 30 September 2015, the Group's remaining six direct shareholdings (Canary Care, Concurrent Thinking, Kwanji, Nightingale-EOS, PsiOxus Therapeutics and Ventive) collectively accounted for £2.0million in value or 6.9% of the total direct investment portfolio, including ownership interests currently held within MF2.

During the period Mercia declined to invest further in Concurrent Thinking and fully provided against its investment at the period end, recognising an impairment charge (£0.2million) in respect of both its direct and MF2's investment. Having failed to find a buyer, the company subsequently entered administration. Mercia also recognised a 50% impairment charge (£0.3million) against its direct and MF2's investment in Nightingale-EOS. The company fell substantially behind its commercial projections during the period, but since the period end has been restructured and a successful new funding round has taken place, in which Mercia participated alongside other investors.

**Matt Mead**  
Chief Investment Officer

# Chief financial officer review

**Martin Glanfield**  
Chief Financial Officer

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**Mercia Technologies has continued its positive start as an AIM listed group**

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Mercia Technologies PLC was incorporated on 17 September 2014. It acquired its two wholly owned subsidiaries, Mercia Investments Limited (“MI”) and Mercia Fund Management Limited (“MFM”) on 17 December 2014, just prior to the Group’s initial public offering (“IPO”). Mercia Technologies was dormant from its date of incorporation until 30 September 2014 and, as a result, no comparative figures are shown in the financial statements.

Mercia Technologies has continued its positive start as an AIM listed group. During the six months to 30 September 2015 the Group invested £4.4million in seven existing and four new direct investments. Since the period end the Group has invested a further £4.2million in one new and six existing emerging stars.

As at 30 September 2015 the fair value of the Group’s direct investment portfolio (including MF2) was £29.2million. Net fair value gains during the period totalled £0.2million. Net assets at the period end were £80.2million, including cash and short-term deposits totalling £48.5million.

The net fair value gains referred to above contributed favourably to a consolidated total comprehensive loss for the period of £0.8million.

## Summarised consolidated statement of comprehensive income

	Six months ended 30 September 2015 £'000
Revenue	654
Cost of sales	(35)
Fair value movements in investments	244
Administrative expenses	(1,698)
Share-based payments charge	(99)
Finance income	186
<b>Loss and total comprehensive loss for the financial period</b>	<b>(748)</b>
<b>Basic and diluted loss per Ordinary share (pence)</b>	<b>(0.35)</b>

### Revenue and cost of sales

Total revenues of £654,000 comprise fund management fees, initial management fees from new investments, investment director monitoring fees and sundry business services income. Cost of sales represents third party fees incurred for administering the funds under management by MFM.

### Fair value movements in investments

	Six months ended 30 September 2015 £'000
Investment movements excluding cash invested:	
Unrealised gains on the revaluation of investments	794
Unrealised losses on the revaluation of investments	(550)
<b>Net fair value gain</b>	<b>244</b>

Unrealised fair value gains arose in four out of the Group's 18 direct investments (excluding those currently held by MF2). The largest fair value gain was Smart Antenna Technologies Limited, which accounted for £378,000 of the total. There were two fair value impairments, the largest being £170,000 for Nightingale-EOS Limited. There was an overall £237,000 unrealised fair value loss within MF2, largely due to MF2's portfolio containing the same two impaired direct investments.

### Administrative expenses

Total administrative expenses of £1,698,000 consisted predominantly of staff related costs. Total headcount is growing in line with the Group's stated objectives at the time of the IPO and was 23 at the period end (including Non-executive Directors).

# Chief financial officer review **continued**

## Share-based payments charge

The £99,000 non-cash charge arises from the issue of share options to staff at the date of the IPO and during the six months ended 30 September 2015.

## Finance income

Interest receivable of £186,000 arose on the Group's cash and short-term liquidity investments.

## Balance sheet and cash flows

Net assets at the period end of £80,190,000 were predominantly made up of the Group's direct investment portfolio, together with cash and short-term liquidity investments.

## Direct investment portfolio

During the period, Mercia's investment portfolio grew from £24,617,000 to £29,223,000. The table below lists the Group's period end investments by value, including a breakdown of the cash invested during the period and all fair value movements.

Investment	Net investment value as at 31 March 2015	Cash invested six months ended 30 September 2015	Fair value movement six months ended 30 September 2015	Net investment value as at 30 September 2015	Percentage held as at 30 September 2015
	£'000	£'000	£'000	£'000	%
Science Warehouse Ltd	12,650	–	–	12,650	62.6
Mercia Fund 2	4,392	–	(236)	4,156	100.0
VirtTrade Ltd	1,750	825	–	2,575	28.4
nDreams Ltd	1,909	–	–	1,909	32.8
Edge Case Games Ltd	–	750	310	1,060	15.6
Crowd Reactive Ltd	500	500	–	1,000	20.5
Soccer Manager Ltd	999	–	–	999	22.4
Allinea Software Ltd	823	17	91	931	9.0
Impression Technologies Ltd	–	750	–	750	12.4
LM Technologies Ltd	–	750	–	750	20.0
Smart Antenna Technologies Ltd	149	100	378	627	12.5
Warwick Audio Technologies Ltd	318	300	–	618	13.5
The Native Antigen Company Ltd	164	118	–	282	15.6
PsiOxus Therapeutics Ltd	–	240	–	240	0.3
Ventive Ltd	189	–	–	189	7.1
Nightingale-EOS Ltd	340	–	(170)	170	8.6
Canary Care Ltd	140	12	15	167	7.3
Kwanji Ltd	150	–	–	150	3.3
Concurrent Thinking Ltd	144	–	(144)	–	10.0
<b>Totals</b>	<b>24,617</b>	<b>4,362</b>	<b>244</b>	<b>29,223</b>	<b>n/a</b>



### Cash and short-term liquidity investments

At the period end, Mercia had total cash and short-term liquidity investments of £48,511,000 comprising cash of £38,491,000 and short-term liquidity investments of £10,020,000. The overriding emphasis of the Group's treasury policy remains the preservation of its shareholders' cash for investment and working capital purposes, not yield. At the period end the Group's cash balances and short-term liquidity investments (which is cash on deposit with maturities between three and 12 months) were spread across four leading United Kingdom based deposit taking institutions. The summarised movement in the Group's cash position during the period is shown below.

	As at 30 September 2015 £'000	As at 31 March 2015 £'000
Cash and short-term liquidity investments at the start of the period	53,633	124
Net cash used in operating activities	(843)	(2,029)
Net cash used in investing activities (including capital expenditure and interest received)	(4,279)	(11,692)
Issued share capital	–	70,000
IPO share issue costs charged to share premium account	–	(2,770)
<b>Period end cash and short-term liquidity investments</b>	<b>48,511</b>	<b>53,633</b>

Looking forward, the Group continues to have adequate financial resources to execute its strategic and operational objectives.

**Martin Glanfield**  
*Chief Financial Officer*

# Independent review report to Mercia Technologies PLC

We have been engaged by Mercia Technologies PLC to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2015 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 7. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

## Deloitte LLP

Chartered Accountants and Statutory Auditor  
Birmingham, United Kingdom  
3 December 2015

# Consolidated statement of comprehensive income

For the six months ended 30 September 2015

		Six months ended 30 September 2015 £'000
<b>Revenue</b>		<b>654</b>
Cost of sales	2	(35)
<b>Gross profit</b>		<b>619</b>
Fair value movements in investments	3	244
Administrative expenses:		
Other administrative expenses		(1,698)
Share-based payments charge		(99)
<b>Operating loss</b>		<b>(934)</b>
Finance income		186
<b>Loss before taxation</b>		<b>(748)</b>
Taxation		-
<b>Loss and total comprehensive loss for the financial period</b>		<b>(748)</b>
<b>Basic and diluted loss per Ordinary share (pence)</b>	4	<b>(0.35)</b>

All results derive from continuing operations.

The accompanying notes are an integral part of these interim financial statements.

# Consolidated balance sheet

As at 30 September 2015

		As at 30 September 2015 £'000	As at 31 March 2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		2,455	2,455
Property, plant and equipment		51	49
Investments	5	29,223	24,617
<b>Total non-current assets</b>		<b>31,729</b>	<b>27,121</b>
<b>Current assets</b>			
Trade and other receivables		729	716
Short-term liquidity investments	6	10,020	30,000
Cash and cash equivalents	6	38,491	23,633
<b>Total current assets</b>		<b>49,240</b>	<b>54,349</b>
<b>Total assets</b>		<b>80,969</b>	<b>81,470</b>
<b>Current liabilities</b>			
Trade and other payables		(779)	(631)
<b>Total liabilities</b>		<b>(779)</b>	<b>(631)</b>
<b>Net assets</b>		<b>80,190</b>	<b>80,839</b>
<b>Equity</b>			
Issued share capital		2	2
Share premium		8,825	8,825
Other distributable reserve		70,000	70,000
Retained earnings		1,220	1,968
Share-based payments reserve		143	44
<b>Total equity</b>		<b>80,190</b>	<b>80,839</b>

The accompanying notes are an integral part of these interim financial statements.

The consolidated interim financial statements of Mercia Technologies PLC on pages 17 to 24 were approved by the Board of Directors and authorised for issue on 3 December 2015. They were signed on its behalf by:

**Dr Mark Payton**  
Chief Executive Officer

**Martin Glanfield**  
Chief Financial Officer

# Consolidated cash flow statement

For the six months ended 30 September 2015

	Six months ended 30 September 2015
	Note £'000
<b>Cash flows from operating activities:</b>	
Operating loss	(934)
<b>Adjustments to reconcile operating loss to net cash flows used in operating activities:</b>	
Depreciation of property, plant and equipment	13
Fair value movements in investments	(244)
Share-based payments charge	99
<b>Working capital adjustments:</b>	
Decrease in trade and other receivables	75
Increase in trade and other payables	148
<b>Net cash used in operating activities</b>	<b>(843)</b>
<b>Cash flows from investing activities:</b>	
Purchase of direct investments	(4,362)
<b>Net cash flows used in investing in direct investments</b>	<b>(4,362)</b>
<b>Cash flows from other investing activities:</b>	
Purchase of property, plant and equipment	(15)
Interest received	98
Decrease in short-term liquidity investments	19,980
<b>Net cash generated from other investing activities</b>	<b>20,063</b>
<b>Net cash generated from total investing activities</b>	<b>15,701</b>
<b>Net increase in cash and cash equivalents</b>	<b>14,858</b>
Cash and cash equivalents at the beginning of the period	23,633
<b>Cash and cash equivalents at the end of the period</b>	<b>38,491</b>

# Consolidated statement of changes in equity

For the six months ended 30 September 2015

	Issued share capital £'000	Share premium £'000	Other distributable reserve £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
Profit and total comprehensive income for the period ended 31 March 2015	–	–	–	1,968	–	1,968
Issue of share capital	2	81,595	–	–	–	81,597
Costs of share capital issued	–	(2,770)	–	–	–	(2,770)
Share premium reduction	–	(70,000)	70,000	–	–	–
Share-based payments charge	–	–	–	–	44	44
<b>As at 31 March 2015</b>	<b>2</b>	<b>8,825</b>	<b>70,000</b>	<b>1,968</b>	<b>44</b>	<b>80,839</b>

	Issued share capital £'000	Share premium £'000	Other distributable reserve £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 2015	2	8,825	70,000	1,968	44	80,839
Loss and total comprehensive loss for the period ended 30 September 2015	–	–	–	(748)	–	(748)
Share-based payments charge	–	–	–	–	99	99
<b>As at 30 September 2015</b>	<b>2</b>	<b>8,825</b>	<b>70,000</b>	<b>1,220</b>	<b>143</b>	<b>80,190</b>

# Notes to the interim financial statements

For the six months ended 30 September 2015

## 1. Accounting policies

The principal accounting policies applied in the presentation of the condensed consolidated interim financial statements of Mercia Technologies PLC ('the Group', 'Mercia') for the period ended 30 September 2015 are consistent with those followed in the preparation of the Group's Annual Report and consolidated financial statements for the period ended 31 March 2015.

### General information

Mercia Technologies PLC ('the Group', 'Mercia') is a public limited company incorporated on 17 September 2014 under the Companies Act 2006 and is domiciled in the United Kingdom, with registered number 09223445. Its Ordinary shares are listed on the AIM Market of the London Stock Exchange. The registered office address is Mercia Technologies PLC, Forward House, 17 High Street, Henley-in-Arden, B95 5AA. Mercia Technologies PLC's Ordinary shares were admitted to trading on AIM on 18 December 2014.

### Basis of preparation

The financial information presented in these condensed consolidated interim financial statements constitutes the condensed consolidated financial statements of Mercia Technologies PLC and its subsidiaries for the six months ended 30 September 2015. These condensed consolidated interim financial statements should be read in conjunction with the Annual Report and consolidated financial statements for the period ended 31 March 2015, which have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards ("IFRSs"), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee ("IFRIC")) interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS.

These condensed consolidated interim financial statements and the comparative financial information presented in these condensed consolidated interim financial statements for the period ended 31 March 2015 do not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's Annual Report and consolidated financial statements for the period ended 31 March 2015 were approved by the Board on 9 July 2015 and have been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Prior period comparatives for the period 17 September 2014 to 30 September 2014 are not presented within the consolidated statement of comprehensive income, the consolidated cash flow statement or related notes because Mercia Technologies PLC was dormant from its date of incorporation until 30 September 2014.

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the EU and the AIM Rules of the London Stock Exchange, on the going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as required by IAS 39 'Financial Instruments: Recognition and Measurement'.

No new or revised standards or interpretations that have become effective during the period ended 30 September 2015 have had a material effect on the financial statements of the Group.

# Notes to the interim financial statements *continued*

## For the six months ended 30 September 2015

The financial information in these condensed consolidated interim financial statements, which were approved by the Board and authorised for issue on 3 December 2015, has been reviewed by the Group's independent auditor.

### ***Critical accounting judgements and key sources of estimation uncertainty***

In the application of the Group's accounting policies, 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. In preparing these condensed consolidated interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements for the period ended 31 March 2015.

### ***Principal risks and uncertainties***

The risks and uncertainties that the Board considered to be key to achieving the Group's strategic objectives were detailed in the Annual Report and consolidated financial statements for the period ended 31 March 2015. A further assessment was made at the half year and the significant risks and uncertainties identified were unchanged from those presented in the Annual Report.

### ***Going concern***

Based on the overall strength of the Group's balance sheet, including its significant liquidity position at the period end, together with its forecast future operating and investment performance, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in preparing these condensed consolidated interim financial statements.

## **2. Segmental reporting**

For the six months ended 30 September 2015, the Group's revenue and profit were derived from its principal activity within the United Kingdom.

The Group has only one operating segment, being Technology Transfer and Investment, because the results of the Group are monitored on a Group-wide basis. The Group's Chief Operating Decision Maker, 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:

	Six months ended 30 September 2015 £'000
Fund management fees	187
Initial management fees	208
Portfolio directors' fees	211
Other revenue	48
	<b>654</b>

### 3. Fair value movements in investments

	Six months ended 30 September 2015 £'000
<b>Net fair value movements in investments</b>	<b>244</b>

No other gains or losses have been recognised in respect of receivables. No gains or losses have been recognised on financial liabilities measured at amortised cost.

### 4. Loss per share

Basic loss per share is calculated by dividing the loss for the financial period by the weighted average number of Ordinary shares in issue during the period. Diluted loss per share is calculated by dividing the loss for the financial period 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 the diluted loss per share calculations on a weighted average basis for the period. The loss and weighted average number of shares used in the calculations are set out below.

	Six months ended 30 September 2015
<b>Loss per Ordinary share</b>	
Loss for the financial period (£'000)	(748)
Weighted average number of Ordinary shares (basic and diluted) ('000)	212,000
<b>Basic and diluted loss per Ordinary share (pence)</b>	<b>(0.35)</b>

# Notes to the interim financial statements *continued*

For the six months ended 30 September 2015

## 5. Investments

The net movement in the fair value of investments for the period is £244,000.

The table below sets out the movement in the balance sheet value of investments from the start to the end of the period, showing investments made and fair value movements.

	£'000
As at 1 April 2015	24,617
Investments made during the period	4,362
Unrealised gains on the revaluation of investments	794
Unrealised losses on the revaluation of investments	(550)
<b>As at 30 September 2015</b>	<b>29,223</b>

## 6. Cash, cash equivalents and short-term liquidity investments

	As at 30 September 2015 £'000	As at 31 March 2015 £'000
Cash at bank and in hand	38,491	23,633
<b>Total cash and cash equivalents</b>	<b>38,491</b>	<b>23,633</b>
<b>Total short-term liquidity investments</b>	<b>10,020</b>	<b>30,000</b>

## 7. Related party transactions

There has been no material change in the type of related party transactions described in the consolidated financial statements for the period ended 31 March 2015.

## Directors, secretary and advisers

### Directors

Raymond Kenneth Chamberlain	(Non-executive Chair)
Dr Mark Andrew Payton	(Chief Executive Officer)
Martin James Glanfield	(Chief Financial Officer)
Matthew Sidney Mead	(Chief Investment Officer)
Susan Jane Searle	(Non-executive Deputy Chair)
Ian Roland Metcalfe	(Non-executive Director)
Martin James Lamb	(Non-executive Director)

### Company secretary

Martin James Glanfield

### Company website

[www.merciatechnologies.com](http://www.merciatechnologies.com)

### Registered office

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

### Independent auditor

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Four Brindleyplace  
Birmingham B1 2HZ

### Principal bankers

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

Lloyds Bank plc  
125 Colmore Row  
Birmingham B3 3SD

### Company registration number

09223445

### Solicitors

Wragge Lawrence Graham & Co LLP  
4 More London Riverside  
London SE1 2AU

Mills & Reeve LLP  
Botanic House  
100 Hills Road  
Cambridge CB2 1PH

### Nominated adviser and broker

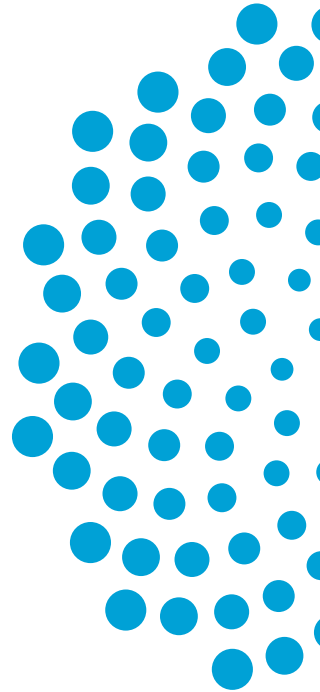
Cenkos Securities plc  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

### Company registrar

SLC Registrars  
42-50 Hersham Road  
Walton-on-Thames  
Surrey KT12 1RZ

### Public relations adviser

Instinctif Partners  
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