

CIP Merchant Capital Limited

Annual Report and Audited Consolidated Financial Statements

For the year ended 31 December 2020

CIP Merchant Capital Limited

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CIP Merchant Capital Limited

Corporate Summary

For the year ended 31 December 2020

CIP Merchant Capital Limited (the “Company”) is a closed-ended investment company limited by shares, registered and incorporated in Guernsey under the Companies (Guernsey) Law 2008, as amended, (“Companies Law”) on 13 September 2017, with registered number 64013.

The Company is a Registered Closed-Ended Collective Investment Scheme regulated by the Guernsey Financial Services Commission (the “GFSC”) pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the “POI Law”) and the Registered Closed-ended Investment Scheme Rules 2015.

The Company has 55,000,000 ordinary shares of no par value in issue, all of which are admitted to trading on AIM, a market operated by London Stock Exchange plc (the “London Stock Exchange”) (“AIM”) under the ticker “CIP”, and with ISIN: GG00BF8NW879 and SEDOL BF8NW87.

The Company is not (and is not required to be) regulated or authorised by the United Kingdom’s Financial Conduct Authority (the “FCA”), although it is subject to the AIM Rules for Companies published by the London Stock Exchange (the “AIM Rules”), the Market Abuse Regulation (Regulation 117 (EU) No. 596/2014) (“MAR”) and the rules of the London Stock Exchange.

The Company established Merchant Capital L.P. (the “LP” or “Limited Partnership”), on 1 December 2017 with registration number 2977, as a limited partnership in Guernsey under the Limited Partnerships (Guernsey) Law, 1995 (as amended), through which the Company makes its investments pursuant to its investing policy. The Company established Merchant Capital GP Limited (the “GP”) on 28 September 2017 with registration number 64070 as a limited company in Guernsey, to act as general partner to the LP. The Company, the GP and the Company’s investment manager, Merchant Capital Manager Limited (the “Investment Manager”), entered into a limited partnership agreement on 30 November 2017 (the “Limited Partnership Agreement”), whereby the GP acts as General Partner of the LP, the Company acts as the Founder Limited Partner and the Investment Manager acts as the Special Limited Partner. Further information on the Limited Partnership Agreement is set out on page 51.

The board of directors of the Company (the “Directors” or, together, the “Board”) also constitute the board of the GP and investment decisions are taken by the Directors in their capacity as directors of the Company and in their capacity as directors of the GP (acting in its capacity as the general partner of the LP). The Board collectively has experience in the asset management, private equity and listed company sphere spanning a broad range of sectors. Biographies of the Directors are set out on page 11.

The Company, the GP and the Investment Manager have entered into the Investment Management Agreement, (as defined and further details of which are set out on page 29, in relation to the management of the Company’s assets and its subsidiaries from time to time (the “Group”). The Investment Manager is licensed and regulated under the POI Law by the GFSC. The Investment Manager was founded by Marco Fumagalli and Carlo Sgarbi in August 2017 for the purpose of acting as the investment manager to the Company, and has been the Company’s investment manager since its admission to trading on AIM. The Investment Manager has entered into a service agreement with Continental Investment Partners SA (“CIP SA”), pursuant to which CIP SA provides certain investment due diligence, monitoring and reporting services to the Investment Manager.

CIP SA was established by Marco Fumagalli and Carlo Sgarbi, Non-Independent Non-Executive Directors of the Company, whose biographies are set out on page 11, in July 2013 with the purpose of originating, arranging and advising on investment opportunities for investors seeking to generate returns through a private equity approach to investment in financial products that are flexible and specialised with a focus on value creation, by exploiting market conditions and investments in value-orientated companies. CIP SA is principally focused on three investment areas: (i) liquid strategies in regulated financial markets focused on corporate and financial bonds; (ii) private/public equity; and (iii) real estate.

CIP Merchant Capital Limited

Corporate Summary (continued)

For the year ended 31 December 2020

The unaudited Net Asset Value (and Net Asset Value per Share) is calculated weekly by the Company's Administrator, Maitland Administration (Guernsey) Limited. The unaudited Net Asset Value per Share is notified weekly through a Regulatory Information Service and is available through the Company's website at www.cipmerchantcapital.com.

Information on the Company's taxation status is set out on page 52.

Investment Objective and Investing Policy

The Company's investment objective is to generate risk-adjusted returns for its shareholders through investment in equity and equity-related products and instruments, by targeting appreciation in the value of its investments over the medium to longer term, principally through capital growth.

The Company invests primarily in equity and equity-linked securities (and related instruments), as well as debt, convertible debt and other financial instruments with equity characteristics, of companies that the Board (as advised by the Investment Manager) believes typically have at least two or more of the following characteristics:

- ability to achieve a superior risk adjusted return with a medium/long term target IRR of 20 per cent;
- cash generative (or expected to generate cash within a reasonable investment horizon);
- attractive management track records;
- strong fundamentals;
- potential for liquidity or exit within an identified time frame; and/or
- potential for the relevant company to have a competitive advantage.

Investments may either be active, being investments made directly by the Company, or passive, being indirect investments made by the Company through similar funds or investment vehicles. The Company may set up (and potentially co-invest in) funds (including cornerstone investments in specialist funds on preferred terms (which may include lower management fees)).

The Company will consider investments in a number of industries and sectors, particularly those in which the Directors and the Investment Manager have the necessary expertise and experience to be able to identify and manage the opportunity. It is expected that investments will predominantly be made in the following industries:

- oil and gas;
- healthcare;
- pharmaceutical; and
- real estate.

Investments will typically (but will not all) be listed on a Western European stock exchange, with a predominant focus on the markets of the London Stock Exchange. The Company will invest in companies with a market capitalisation of (listed) or valued at (unlisted) less than £500 million at the time of investment and will focus largely on investment in companies with a market capitalisation of or valued at less than £200 million at the time of investment.

CIP Merchant Capital Limited

Corporate Summary (continued)

For the year ended 31 December 2020

Investment Objective and Investing Policy (continued)

The Company's investment holding period and exit strategy will depend on the underlying asset, exit opportunities and the size of the Company's investment. While the Directors intend to hold the Company's investments on a medium to long term basis, the Company may dispose of investments outside this timeframe should an appropriate opportunity arise where, in the Board's opinion (as advised by the Investment Manager), the value that could be realised from such disposal would represent a satisfactory return on the initial investment and/or otherwise enhance the value of the Company, taken as a whole. In addition, the Company will also make, from time-to-time smaller investments in short term trades, based on an attractive opportunistic view of value appreciation.

The Company will at all times invest and manage its investments in a manner which is consistent with the objective of spreading investment risk.

Investment restrictions

The Company will observe the following investment restrictions:

- the maximum investment in or exposure to any single investee company will be no more than 20 per cent. of the Company's Net Asset Value at the time of investment;
- investments in or exposure to unlisted/unquoted companies will be limited to, in aggregate, 30 per cent. of the Company's Net Asset Value at the time of investment;
- the maximum investment in or exposure to any investee company or fund that itself invests in a portfolio of investments will not exceed 10 per cent. of the Company's Net Asset Value at the time of investment; and
- investments concentrated in any one sector or industry shall not exceed 50 per cent. of the Company's Net Asset Value at the time of investment.

The Board expects the portfolio to be relatively concentrated, typically consisting of exposure to five to ten companies once fully invested.

CIP Merchant Capital Limited

Chairman's Statement

For the year ended 31 December 2020

Introduction

The year under review has principally revolved around how the world would deal with the unprecedented COVID-19 pandemic and we have all had to adapt to the consequences as best we can whilst eagerly awaiting roll-out of effective vaccines to hopefully restore some sense of normality. Therefore, whilst there remains significant uncertainty as to how events will ultimately unfold, I am pleased to present CIP Merchant Capital Limited's ("CIP" or the "Company") Annual Report and Audited Consolidated Financial Statements for the period from 1 January 2020 to 31 December 2020 (the "Audited Financial Statements") and look forward with tempered optimism.

Since the Company's admission to trading on AIM, alongside a fundraising of £55 million (gross), the Investment Manager has been sourcing suitable investment opportunities and as at 31 December 2020 the Company had made investments in 11 companies and successfully exited from one investment. The Company currently has approximately £9.6 million of cash and cash equivalents (consisting of cash held by both the LP and the Company as well as short term gilts held by the Company) to invest, which it is seeking to deploy in accordance with its investing policy to generate shareholder value.

Throughout 2020, many countries have entered into and exited lockdowns in order to seek to contain the waves of contagion of COVID-19. Notwithstanding the on-going roll-out of various vaccines, the prevalence of lockdowns continued in the initial months of 2021, thereby contributing to general uncertainty and leading many companies to refrain from providing any guidance on the results they are aiming to achieve in the coming months. In this context, the Company remains focused on investing the remainder of its cash reserves in line with its investment policy and will keep shareholders updated in this regard, while pursuing a careful and cautious approach in the best interests of shareholders. In accordance with its stated cash management policy, as at 31 December 2020, the Company had invested its liquidity in short dated treasuries and corporate bonds. Further details on the current investment portfolio are set out in the Investment Manager's Report.

Some brief comments are warranted on the unsolicited approaches made in late 2020 and subsequent possible offer announced on 26 January 2021 by Corporation Financière Européenne S.A. on behalf of funds or vehicles which are managed or advised by it ("CFE") pursuant to Rule 2.4 of the City Code on Takeovers and Mergers (the "Code") which was accompanied by CFE increasing its interest in the Company's share capital to approximately 15.94 per cent, making it the Company's single largest shareholder. As announced on 15 February 2021, the Board unanimously regarded CFE's possible offer as being opportunistic and considered the possible offer price of 50 pence per share to significantly undervalue CIP's current investment portfolio and the Company as a whole and not reflective of an appropriate value for independent shareholders. The Board continues to believe in the growth of CIP's existing investee companies and the returns achievable from its stated investment strategy. The Investment Manager continuously monitors and analyses key markets and target sectors to identify attractive opportunities where there is a strong fundamental business case for investment, particularly in the current uncertain market environment, with the aim of generating future long-term value for all of CIP's shareholders and the Board welcomes engagement with shareholders in pursuit of the Company's strategic objectives.

Before moving on, I would note that the Board resolved not to hedge the Company's investments made in foreign currencies, and hence shareholders are encouraged to consider carefully the impact of significant adjustments to the value of Sterling due to general global political and macro-economic developments.

CIP Merchant Capital Limited
Chairman’s Statement
For the year ended 31 December 2020

Performance

The Company’s NAV as at 31 December 2020, was £42.8 million (2019: £46.2 million), equating to 77.80p per share (2019: 84.09p) meaning that the Company made a loss of £0.06 per share during the year. During the reporting period, the Company’s ordinary shares traded in a range between 40p to 60p and closed the year at 50.20p. The Company’s ordinary shares have also traded at an average discount of 28.9 per cent to NAV during the reporting period.

More recently, the Company’s share price has moved between 50p and 60p and, as at 14 May 2021, it closed at 56.50p per share, representing a discount of approximately 34 per cent to the Company’s NAV of 85.87p per share as at 14 May 2021.

Dividends

There were no dividends declared in the reporting period. As stated in the Company’s Admission Document, it is intended that the net proceeds of any realisations in the portfolio are to be reinvested in line with the Company’s principal focus on capital growth.

Corporate Governance

The Company seeks to comply with the Association of Investment Companies (“AIC”) Code of Corporate Governance to the extent required and undertakes to ensure that the Directors are kept up to date with matters concerning listed investment companies like ours. The Board members take their fiduciary and corporate governance responsibilities seriously and I encourage shareholders to contact the manager at info@cipmerchantcapital.com, or the Board via the Company Secretary at admin.guernsey@maitlandgroup.com should they have any questions or would like to discuss anything with us.

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Adrian Collins
Non-Executive Chairman

CIP Merchant Capital Limited

Investment Manager's Report

For the year ended 31 December 2020

Investment Strategy

The Company aims to generate risk-adjusted returns through capital appreciation, investing primarily in stocks and equity securities and taking a private equity approach to achieve a target IRR of 20 per cent over the medium to long term. Key investment targets will predominantly be listed on a Western European stock exchange and will typically have a market capitalisation below £500 million, which the Board believes often puts such companies below the radar of the larger institutional investors in the market. A flexible mandate also allows part of CIP's capital to be deployed in debt, as well as funds or private equity.

The Investment Manager is continuously reviewing and considering various investment opportunities that may meet the Company's investment objectives and investing policy. The opportunities are actively sourced by the Investment Manager through its network of contacts and through a proactive identification of target investments through its proprietary database.

Market Conditions

2020 saw the widespread outbreak of the COVID-19 pandemic at the beginning of the year, just as markets were peaking in February 2020, causing a dramatic collapse in the following two months followed by a significant divergence in the share price performance of technology and pharmaceutical related companies versus companies in more traditional industries. Certain sectors and businesses have now more than recovered from their pandemic lows back in February 2020, while others continue to struggle and are likely to face difficulties for some considerable time. This is understandable, as some business models have benefited from the changing needs of corporates, such as massive work from home implementation, and stay-at-home consumers, such as ecommerce. For rather intuitive reasons, some industries have benefited immensely, for example pharmaceutical and diagnostic businesses, whereas other sectors like travel and aviation are suffering immensely, and consequently, all the related supply chains up to oil & gas.

More recently, major markets have gradually priced in anticipated economic recovery on the assumption that on the back of successful vaccine roll-out programs, the world will exit from the pandemic sooner rather than later. Consequently, share prices have broadly improved, with fundamentally sound traditional businesses now generally catching up in terms of improved performance.

Observing how the CIP's investee companies have performed and adapted during this challenging period has been most informative.

Performance Review

Our focus has remained both on identifying potential new investment opportunities whilst supporting existing investments. In this regard, we continue to screen markets, conduct comprehensive analysis and meet with management teams. With respect to existing investments, we carefully monitor the performance of investee businesses versus our original investment case and maintain regular dialogue with senior executives and other shareholders in such portfolio companies.

As at 31 December 2020, the Company's portfolio comprised eleven investments, which are covered in more detail in the portfolio review section below. Post the reporting period end, we also established stakes in HSS Hire Group plc ("HSS"), Ixico plc ("Ixico") and Vertu Motors plc ("Vertu").

CIP Merchant Capital Limited
Investment Manager's Report (continued)
For the year ended 31 December 2020

Portfolio Review (continued)

Portfolio Company	Industry	Country	Period end		14 May 2021	
			Cost GBP	Market Value GBP	Cost GBP	Market Value GBP
Alkemy SpA	Software/Tech	Italy	4,084,106	2,578,732	4,084,106	4,345,722
Brave Bison Group plc	Software/Tech	UK	1,180,700	712,703	1,180,700	1,087,810
CareTech Holdings plc	Healthcare	UK	5,143,558	7,210,420	5,143,558	7,614,092
Coro Energy plc (shares)	Oil & Gas	UK	6,005,455	632,877	6,005,455	482,192
Coro Energy plc (debt)	Oil & Gas	UK	2,809,964	3,089,254	2,809,964	2,972,493
Coro Energy plc (warrants)	Oil & Gas	UK	-	5,967	-	1,705
EKF Diagnostics Holdings plc	Healthcare	UK	2,199,727	2,751,250	2,199,727	2,518,750
Happy Friends*	Healthcare	Italy	3,829,455	1,995,107	3,829,455	1,919,701
HSS Hire Group plc	Support Services	UK	-	-	3,941,454	4,625,000
Ixico plc	Healthcare	UK	-	-	2,248,300	2,869,805
Orthofix Medical Inc.	Healthcare	US	4,890,750	3,521,535	4,890,750	3,382,737
Proactis Holdings plc	Software/Tech	UK	928,211	1,271,250	928,211	2,073,550
Redde Northgate plc	Support Services	UK	1,988,189	1,805,515	1,988,189	2,623,427
Totally plc	Healthcare	UK	102,435	102,500	713,196	1,095,000
Trellus Health Ltd	Healthcare	US	31,151	31,151	31,151	31,151
Vertu Motors plc	Support Services	UK	-	-	627,214	714,515
Portfolio			33,193,701	25,708,261	40,621,430	38,357,650
NAV				42,813,588		47,230,555

*This value is of the combined interest of equity and debt on a look through basis.

Alkemy SpA

Alkemy SpA (“**Alkemy**”), a consulting firm specialising in digital transformation, appointed a new general manager in July 2020, who has reshaped the corporate structure. As reflected in its full year results, announced in late February 2021, the business has improved in terms of profit margins in light of the work performed on controlling costs by the new general manager. In addition, the COVID-19 pandemic has led many large corporations to initiate digital transformation projects, which should give rise to substantial growth in the market in which Alkemy operates, thereby enhancing its long-term prospects. Against this positive backdrop, the Company acquired a further interest in Alkemy shares between November and December 2020 to bring down its average book cost to 11.27 Euro per share.

Brave Bison Group plc

Similar to Alkemy, Brave Bison Group plc (“**Brave Bison**”), a video production company, has seen its new management team introduced in May 2020 beginning to deliver results: in the second half of 2020, Brave Bison managed to increase revenues vis-à-vis the second half of 2019 and, keep costs under control, such that it expects to generate an 18 per cent increase in gross profits for the 6 months to 30 December 2020, with an improved cash position and has announced a further contract win during the first months of 2021. Overall, the management team expects to report EBITDA breakeven for the full year and is confident of driving the business forward. Accordingly, the Company acquired a further interest of 3,175,000 shares in Brave Bison thereby reducing its average book cost to 1.57 pence per share.

CIP Merchant Capital Limited

Investment Manager's Report (continued)

For the year ended 31 December 2020

Portfolio Review (continued)

CareTech Holdings plc

CareTech Holdings plc (“CareTech”), a leading provider of specialist social care services, reported results for its financial year ended 30 September 2020, showing virtually no impact from the COVID-19 pandemic: revenues grew nearly 10 per cent, with underlying EBITDA, profit before tax and dividends all increasing by more than 10 per cent. CareTech maintained its growth trajectory with operating excellence, further technological developments and acquisitions. Despite such momentum, CareTech’s share price declined during 2020 affording the Company the opportunity to add to its holding and, increase its exposure to a well performing business.

Circassia Pharmaceuticals plc

In 2020, the Company built a 3.4 per cent stake in Circassia Pharmaceuticals plc (“**Circassia**”), a specialty biopharmaceutical company focused on allergy and respiratory diseases. Circassia, despite being unprofitable, delivered over £60 million revenues for 2019 with a good level of cash in the bank. The Company managed to establish its stake at an average price of approximately 21 pence per share in early 2020, just prior to the COVID-19 pandemic hitting and Circassia’s announcement of the sale of its drugs portfolio. This led to a fall in the share price to an intraday low of 12.50 pence on 22 March 2020 before bouncing back to more than 30 pence in August 2020. With opportune timing, the Company sold its entire position at around 31 pence per share thereby generating a 72 per cent IRR on its investment in a matter of only a few months.

Coro Energy plc

As for most oil & gas companies, Coro Energy plc (“**Coro**”), a South East Asian energy company with a growth strategy centered on low carbon energy investments and legacy gas assets in Indonesia and Italy, was severely hit by the COVID-19 pandemic, as a consequence of both shrinking fuel consumption and a concerted push from governments to transition towards greener energy production. Consequently, the well-executed buy, rerate and sell plan for the gas assets it bought in Southern East Asia was not completed. Coro’s management team have therefore pivoted to turn Coro into a player in the renewables sector via the acquisitions of:

- a 20.3 per cent interest in Ion Ventures Holdings Limited, a modern utility and energy storage infrastructure developer with a project pipeline of 300MW under development across South East Asia and the UK & Ireland, which partnered with LiNA Energy, a solid-state battery technology developer, and
- Global Energy Partnership Limited, an originator and developer of renewable energy projects in South East Asia.

Coro also raised £5 million gross via a placing and open offer at a price of 0.4 pence per share in late February 2021, which enabled it to, inter alia, service the coupon due on the bond issued and subscribed by the Company. Coro’s Directors have a reasonable expectation that Coro will remain in operation until April 2022, when its bond obligation will be due. As it is unclear how Coro will manage its capital structure and whether or not it will restructure, in part or completely, its bond obligation, it is not guaranteed and this represents a material uncertainty regarding the ability of Coro to continue as a going concern.

EKF Diagnostics Holdings plc

During 2020, the Company built a stake in EKF Diagnostics holdings plc (“**EKF**”), a global integrated medical diagnostics business. Amongst other activities, EKF provides kits for COVID-19 testing which boosted its economic and financial performance and had a positive impact on its share price performance.

CIP Merchant Capital Limited

Investment Manager’s Report (continued)

For the year ended 31 December 2020

Portfolio Review (continued)

EKF Diagnostics Holdings plc (continued)

The Company managed to build its relatively small stake principally on the rare occasions of weakness in EKF’s share price during the second half of 2020. In addition to paying a maiden dividend, EKF also distributed in specie a stake in Trellus Health Limited (“**Trellus**”), an unlisted telehealth-based connected care platform, which intends to seek a flotation in the next twelve months.

Happy Friends

7Star Srl (“**Happy Friends**”), a private Italian company founded in December 2016, operates a chain of veterinary hospitals under the brand name ‘Happy Friends’ in Lombardy in Northern Italy. It opened its third hospital in September 2020 which joined its hospitals in Curno (BG) and Brescia and continued to implement its growth plan irrespective of the COVID-19 pandemic. The overall economic performance of the hospitals was satisfactory, in particular for the latest practice in Verano. Pursuant to the terms of an option arrangement announced post the reporting period end on 1 March 2021 (the “Option Arrangement”), CIP currently holds an option to acquire a further 41.6 per cent. of Happy Friends’ existing issued equity capital (the “Option Shares”), being the entire interest currently held by certain of Happy Friend’s existing shareholders (the “Proposed Selling Shareholders”), for an exercise period of 12 months at a nominal exercise price of, in aggregate, €5 (the “Call Option”). Under the terms of the Option Arrangement, the Call Option can be exercised by CIP at any time during its 12 month term (the “Call Option Period”) and CIP also has the right to nominate a third party to receive the Option Shares. On expiry of the Call Option, the Proposed Selling Shareholders have the right, for a period of thirty calendar days thereafter, to put the Option Shares on to CIP (or to a third party to be nominated by CIP) for an aggregate nominal consideration of €5 (the “Put Option”). The Option Arrangement was agreed in conjunction with CIP consenting, pursuant to its rights under the Happy Friends’ investment and stakeholder’s agreement, to the repayment of €203,818 of shareholder loans to the Proposed Selling Shareholders and the writing off of the balance of such shareholder loans, being €320,474, by Happy Friends. The Option Arrangement allows CIP to facilitate an orderly exit for the Proposed Selling Shareholders whilst providing CIP with an option to increase its equity interest in Happy Friends for nominal consideration. We believe that there is the potential for value enhancement through corporate activity and other strategic and organic growth initiatives in relation to Happy Friends and further believe that the Option Arrangement provides an improved platform and greater alignment of stakeholders for such potential activity.

Orthofix Medical Inc.

The business of Orthofix Medical Inc. (“**Orthofix**”), a reconstructive and regenerative solutions provider that aims to restore the quality of life for patients with various spinal and bone-related conditions, was affected during the first half of 2020 because of the COVID-19 pandemic induced lockdown in the US, which largely halted elective procedures. It has subsequently resumed its operations, showing results for the last two quarters of 2020 essentially in line with the results of the same quarters of 2019. However, the second quarter saw a 37% decline in net sales vis-à-vis 2019. Consequently, despite Orthofix’s share price declining materially between February and March 2020, it has since recovered more than doubling in value since March 2020. Orthofix is continuing to expand its portfolio of reconstructive and regenerative solutions that aim to restore the quality of life for patients with spinal and bone-related conditions. Thanks to strong cash generation which allows to self-finance R&D activity, it is expected that Orthofix will continue to grow in size and consequently create shareholder value.

CIP Merchant Capital Limited

Investment Manager's Report (continued)

For the year ended 31 December 2020

Portfolio Review (continued)

Proactis Holdings plc

Proactis Holdings plc (“**Proactis**”), a leading provider of comprehensive spend management and business process collaboration solution, Software-as-a-Service business model proved resilient as expected during 2020, with recurring revenues slightly growing as a consequence of new contracts which compensated for the heavy customer churn. However, as the level of customer retention and conversion into multi-year deals in its latest accounts was above Proactis’ initial expectations, its board believes this demonstrates a renewed ability to offer alternative solutions to existing customers. In terms of share price, the LP acquired a further 25,000 shares in Proactis in November 2020, to bring its average the book cost down to 32.82 pence per share. On 30 April 2021, Proactis announced that funds advised and managed by Pollen Street Capital Limited (“**Pollen**”) had offered to buy its entire issued share capital at a price of 75p per share (“**Offer**”), which represents a potential 128% return on investment for the Company. The Offer has been recommended by the Board of Proactis and on 17 May 2021 Proactis further informed that Pollen had gathered over 50% of irrevocable undertakings to vote in favour of the Scheme to implement the Offer.

Redde Northgate plc

Prior to the merger of Redde plc and Northgate plc to form Redde Northgate Plc (“**Redde**”), aimed at creating of a leading integrated mobility solutions platform, the Company established a stake in Redde plc under the assumption that the merger would prove much more beneficial to shareholders than originally anticipated at the time of the all-share merger. The enlarged group’s interim results for the six months ended 31 October 2020 revealed encouraging momentum, with performance slightly above pre-COVID-19 levels, a satisfactory level of profitability and sufficient confidence by the board of directors to pay an interim dividend. Against this backdrop, the share price has recovered from an intraday low of 120.20 pence on 22 March 2020 to 266.00 at year end and is now above pre-COVID-19 pandemic levels.

Totally plc

From late 2020 and during the beginning of 2021, the Company built a stake in Totally plc (“**Totally**”), a provider of a range of healthcare services across the UK and Ireland. Totally operates under a number of brands and runs urgent care, planned care and insourcing services. During 2020, Totally’s management allocated resources to deliver existing and new face-to-face and remote healthcare services seeking to more than make up for business lost via new business wins.

Cash Management

In accordance with its cash management policy, the Company had invested approximately £12.3 million in short dated treasury and corporate bonds as at 31 December 2020, whilst the remainder of its liquidity was ringfenced at the Company’s brokers, ready to be utilised for attractive trading opportunities.

Outlook

We are constantly screening for new investment opportunities and endeavouring to employ the Company’s remaining funds. This means not only that additional investments are expected to be completed going forward, but also that further capital could be deployed to support our existing portfolio companies.

CIP Merchant Capital Limited

Board of Directors

For the year ended 31 December 2020

The Directors have overall responsibility for the Company's activities including the review of its activities and performance.

The Directors of the Company at the date of signing these accounts, all of whom are non-executive, are listed below:

Adrian Collins (Independent Non-Executive Chairman) – appointed November 2017

Mr. Collins has worked in the fund management business for over 45 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director. He was until 2019, chairman of Liontrust Asset Management plc and currently serves on the boards of a number of quoted companies including Bahamas Petroleum Company plc, Logistics Development Group plc (formerly Eddie Stobart Logistics plc) and Hargreaves Lansdown plc.

Marco Fumagalli (Non-Independent Non-Executive Director) – appointed September 2017

Mr. Fumagalli has a significant transaction track-record as a Global Partner at the PE house 3i Group, with significant results in the management of investments in both private (e.g. Giochi Preziosi, Coelsanus Preserves and Vis Pharmaceuticals) and listed companies (e.g. Biosearch Italy and Datamat Novuspharma). From 2010 to 2013, he was responsible for managing the private equity activities within a Swiss family office. Mr. Fumagalli is a co-founder and principal of Merchant Capital Manager Limited ("Merchant Capital"), the Company's Investment Manager, and Continental Investment Partners SA ("CIP") and is currently a non-executive director of AIM quoted companies Sound Energy plc, Echo Energy Plc and Coro Energy plc.

Carlo Sgarbi (Non-Independent Non-Executive Director) – appointed September 2017

Mr. Sgarbi has over 20 years' experience in investment banking with IMI Group, part of Intesa Sanpaolo, a leading Italian banking group, which included being appointed Head of Debt Capital Markets in 1995 for Banca IMI, the investment bank of the Intesa Sanpaolo. Mr. Sgarbi was subsequently appointed Global Head of Fixed Income and Derivatives, Co-Head of Global Markets Equities and Derivatives, where he was responsible for managing approximately 300 professionals specialised in different areas of market activities and risk. From 2007 to 2013, he was responsible for managing all investment activities within a Swiss family office, which Mr. Fumagalli was also involved with from 2010. He founded both Merchant Capital and CIP along with Mr. Fumagalli and is a Managing Partner of CIP.

John Falla (Independent Non-Executive Director) – appointed November 2017

Mr. Falla trained with Ernst & Young in London before moving to their Corporate Finance Department. On returning to Guernsey he worked for an international bank, before joining the Channel Islands Stock Exchange as a member of the Market Authority. In 2000, Mr. Falla joined the Edmond de Rothschild Group in Guernsey and provided corporate finance advice to clients including open and closed-ended investment funds and institutions with significant property interests. He was also a director of a number of Edmond de Rothschild Group operating and investment companies. Mr. Falla is now a non-executive director of a number of investment companies, the majority of which are listed on the London Stock Exchange, and a consultant. Mr. Falla is a Chartered Accountant and has a BSc Hons degree in Property Valuation and Management from The City University, London. He is a Chartered Fellow of the Chartered Institute for Securities and Investment having been awarded their diploma.

CIP Merchant Capital Limited
Board of Directors (continued)
For the year ended 31 December 2020

Robert King (Independent Non-Executive Director) – appointed November 2017

Mr. King is a non-executive director of a number of open and closed-ended investment funds including Weiss Korea Opportunity Fund Limited and Tufton Oceanic Assets Limited (Chairman). Before becoming an independent non-executive director in 2011, he was a director of Cannon Asset Management Limited and their associated companies. Prior to this he was a director of Northern Trust International Fund Administration Services (Guernsey) Limited (formerly Guernsey International Fund Managers Limited) where he worked from 1990 to 2007. He has been in the offshore finance industry since 1986 specialising in the administration and structuring of offshore open and closed ended investment funds. Mr King is British and resident in Guernsey.

Piero Sansalone (Non-Independent Non-Executive Director) - appointed September 2020

Mr. Sansalone began his career in corporate finance at Deloitte and later at KMPG. Mr Sansalone has expertise in business analysis and valuation, as well as turnarounds, restructuring and merger and acquisitions. Between 2011 and 2013, Mr Sansalone worked for the same major Swiss family office as Messrs Sgarbi and Fumagalli where he was responsible for managing private equity investments. Until 2017, Mr Sansalone was investment manager at Continental Investment Partners SA, an affiliate of the Company's Investment Manager, responsible for the Private Equity and Real Estate activities. Mr Sansalone is currently an independent financial adviser and business consultant for SMEs, family offices and Private Equity funds.

CIP Merchant Capital Limited

Report of the Directors

For the year ended 31 December 2020

The Directors present the Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2020.

Status and Activity

The Company was registered in Guernsey on 13 September 2017 and is a registered closed-ended investment scheme under the POI Law. The Company issued 55,000,000 ordinary shares of no par value which trade on the London Stock Exchange's AIM market under the ticker "CIP". The ordinary shares were admitted to trading on 22 December 2017.

On incorporation, two shares were issued at £1.00 each for the purposes of the Company's incorporation to the subscribers to the Memorandum. Such shares were redeemed by the Company on its admission to trading on AIM when 55,000,000 new ordinary shares were issued at a subscription price of 100 pence per share to investors.

Results and dividends

The Company's financial position and performance, business model and strategy during the year is discussed in the Chairman's Statement starting on page 4 and the Investment Managers Report starting on page 6. The results for the year are set out in the Statement of Comprehensive Income on page 42. The Directors do not recommend the payment of a dividend for the year ended 31 December 2020. As stated in the Company's Admission Document it is the Company's intention to reinvest the net proceeds of any realisations in the portfolio.

Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

The impact of the coronavirus (COVID-19) pandemic has continued to cause extensive disruptions to businesses and economic activities globally. Although COVID-19 has, and continues to have, an impact on the businesses and the valuation of our portfolio companies, the Directors have reviewed the Company's holdings of £47 million as at 14 May 2021, and consider that the Company will be able to meet its liabilities as they fall due while also availing itself of investment opportunities.

- cash and cash equivalents of £3.5 million held through the LP;
- short-dated treasury gilts of £6 million held by the Company;
- listed equities held through the LP of £33.4 million.

In addition, the Company does not have any external debt and therefore, the Directors believe that the aforementioned resources will be sufficient to meet the Company's annual running costs.

For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Principal and emerging risks and uncertainties

The Company's assets consist of investments in equity and equity-related products and instruments. Investments may either be active, being investments made directly by the Company, or passive, being indirect investments made by the Company through similar funds or investment vehicles. The Company may also set up (and potentially co-invest) in funds. Its principal risks (as outlined in further detail below) are related to market conditions in general and also the particular circumstances of the businesses in which it invests and the resulting performance of such investments. The Company considers principal risks as those which are considered by the Board to have the greatest chance of having a material impact on the Company's objectives.

The financial risks are discussed in detail in Note 15 to the Financial Statements. The other principal risks and uncertainties which could have a material impact on the Company's performance are summarised as follows:

Risks relating to the Company and its investment strategy, including the risk that the Company may not meet its investment objectives and risks related to the reliance on the performance of third-party service providers.

Economic and market risk, including:

- Risks related to the impact of economic conditions, including price risk (being the risk that the value of the Company's investments will fluctuate due to changes in market prices) and interest rate risk (being the risk that future cash flows of a financial instrument will fluctuate due to changes in interest rates);
- Changes in industry conditions or the competitive environment; and
- Restricted availability of financing.

Credit risk, being the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into with the Company.

Liquidity risk, being the risk that the Company will be unable to meet its liabilities as they fall due.

Risks relating to the Company's shares and securities, including the risk that its shares may trade at a discount or premium to net asset value.

Risks relating to changes in laws or regulations, or a failure to comply with laws and regulations, which may affect the Company's business, investments and performance.

The ongoing and evolving COVID-19 pandemic is a further risk the outcome of which remains uncertain and which is discussed in more detail in our Viability Statement below.

Risk management and mitigation

The Investment Manager, as the Company's AIFM has responsibility for the management of risk, subject to the overall supervision of the Board. The Investment Manager seeks to mitigate risks through conducting due diligence on target investments prior to seeking approval from the Board to make such investments. Once made, the Investment Manager regularly monitors the performance of each investment and makes recommendations to the Board as to any future actions it should take.

Each Director is aware of the risks inherent in the Company's business and ensures that the risks are understood and evaluated. The Board has adopted processes and controls to manage these risks and meet all of its legal and regulatory requirements and ensures that the Company complies with the investment restrictions and diversification limits provided for within the Admission Document. Legal and tax advisers may also be engaged where appropriate to provide advice, particularly in the event that laws or regulations change.

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Risk management and mitigation (continued)

The Board evaluates risks, including emerging risks, on an ongoing basis and has adopted a comprehensive risk matrix which is reviewed and discussed at each Board meeting. It ensures that effective financial, operational and compliance controls are in place to mitigate these risks and ensure that applicable laws and regulations are upheld. In particular, the Board monitors liquidity risk and asset values and counterparty exposures.

The Company also relies on periodic reporting by the Investment Manager and Administrator regarding the risks faced by the Group, and the Company's management engagement committee reviews on an annual basis information related to the internal controls implemented by the Company's service providers, including business continuity procedures.

Viability statement

As required by the AIC Code, the Directors have assessed the viability of the Company over a period longer than 12 months. The Directors have assessed the prospects of the Company over the three-year period to 31 December 2023. In determining the appropriate period of assessment, the Directors consider that three years is a sufficient investment time horizon to be relevant to shareholders and that choosing a longer time period can present difficulties given the lack of longer-term economic visibility.

The Board, as part of its assessment of the long-term viability of the Company, has undertaken a robust assessment of the principal risks and uncertainties faced by the Company.

As explained in the Investment Manager's Report, the valuations of the Company's portfolio companies since 31 December 2019, have been significantly impacted as a result of movements in the global financial markets in light of the impact of the COVID-19 pandemic. The Investment Manager will continue to monitor the rapidly evolving situation closely and will make adjustments to our current investments as necessary/appropriate going forward. It should however be noted that the Company's investment time horizon is of a medium to long term nature to seek to create shareholder value. In addition, given the Company's combined cash and short dated treasuries balance of approximately £17.2 million as at 31 December 2020, of which £3.3 million constitutes cash and cash equivalents held through the Limited Partnership, the Board believes the Company is well placed to take advantage of investment opportunities that present themselves in the current uncertain market environment going forward.

The continuation of the Company in its present form is dependent on the investment management agreement and limited partnership agreement remaining in place. The current investment management agreement is terminable on 12 months' notice by either party. The Directors currently know of no reason why the Investment Manager might serve notice in respect of the investment management agreement over the period of the viability statement.

The Directors have carried out a robust risk assessment including the evolving impact of the COVID-19 pandemic, and based on the Company's processes for monitoring operating costs, share price discount, the Investment Manager's compliance with the Company's investment objective and policy, asset allocation, portfolio risk profile, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2023.

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing an Annual Report and Financial Statements for each financial year which gives a true and fair view, in accordance with applicable law and regulations, of the state of affairs of the Company and of the profit or loss of the Company for that year.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS").

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The maintenance and integrity of the Company's website is the responsibility of the Directors. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with Companies Law. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken into account all matters considered by the Board and brought to the attention of the Board for the year ended 31 December 2020, as outlined in the Corporate Governance Statement, Strategic Report and the Audit Committee Report, the Board has concluded that the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2020, taken as a whole, are fair, balanced and understandable and provide the information required to assess the Group's position, performance, business model and strategy.

Directors

The Directors of the Company who served during the year are detailed on pages 11 and 12.

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Directors' interests

The Directors held the following interests in the share capital of the Company either directly or beneficially as at 31 December 2020, and as at the date of signing these Financial Statements:

Director	Number of shares	% of issued shares
Adrian Collins	50,000	0.09
Marco Fumagalli*	2,130,763	3.87
Carlo Sgarbi*	2,330,764	4.24
John Falla	10,000	0.02
Piero Sansalone	-	-
Rob King	-	-

Note:

*Goldfinch S.A., a company wholly owned in equal proportion by Marco Fumagalli and Carlo Sgarbi, holds, in aggregate, 4,261,527 ordinary shares. A further 200,000 ordinary shares are held directly by Carlo Sgarbi.

The Company does not have any employees, only non-executive Directors who receive only a basic fee, plus expenses. Therefore, the use of a detailed remuneration table is not appropriate here. A condensed table showing the information relevant to the Director's remuneration is shown in its place.

The Directors who served in the year received the following fees:

Director	2020 £	2019 £
Adrian Collins	35,000	35,000
Marco Fumagalli	-	-
Carlo Sgarbi	-	-
John Falla	27,500	27,500
Piero Sansalone	6,728	-
Rob King	25,000	25,000
	<u>94,228</u>	<u>87,500</u>

Messrs Sgarbi and Fumagalli signed waiver letters dated 30 November 2017 waiving their Directors' fees. Mr Falla, Mr King, Mr Sansalone and Mr Collins signed updated appointment letters on 24 September 2020 confirming their duties and fees as set out above.

Share buy backs and discount management

The Directors do not currently have in place the authority to make market purchases up to 14.99 per cent of the Company's current issued share capital, due to the proposed resolution to renew such authority not being passed by shareholders at the Company's last annual general meeting held on 26 June 2020. However, the Directors hope to receive shareholder support to renew such authority at the forthcoming 2021 annual general meeting. There is no present intention to exercise such general authority if secured, however the making and timing of any market purchases will be at the absolute discretion of the Board.

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Share buy backs and discount management (continued)

The Directors believe that the most effective means of minimising any discount to Net Asset Value which may arise from the Company's share price, is to deliver strong, consistent performance from the assets held by the Group in both absolute and relative terms. However, the Board recognises that wider market conditions and other considerations affect the rating of the Company's ordinary shares in the short term and the Board may seek to limit the level and volatility of any discount to Net Asset Value at which the Company's ordinary shares may trade. The means by which this might be achieved could include the Company repurchasing its ordinary shares. Therefore, subject to the requirements of the Companies Law, the Company's Articles and other applicable legislation, the Company may purchase its ordinary shares in the market in order to address any imbalance between the supply of and demand for its ordinary shares. Such purchases would be at a discount to Net Asset Value and would be accretive to the Net Asset Value of the Company's ordinary shares.

In deciding whether to make any such purchases, the Directors will have regard to what they believe to be in the best interests of the Company's shareholders and to the applicable Guernsey legal requirements which require the Directors to be satisfied on reasonable grounds that the Company will, immediately after any such repurchase, satisfy a solvency test prescribed by the Companies Law and any other requirements in its Memorandum and Articles.

Market purchases will only be intended to be made provided the price to be paid is not more than the higher of: (i) 5 per cent. above the average of the mid-market value of the Company's ordinary shares for the five business days before the day the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation (as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018) from time to time. Any shares purchased by the Company may be cancelled or held as treasury shares.

The Company may borrow and/or realise investments in order to finance any such share purchases.

Treasury Shares

The Company may hold any ordinary shares repurchased by it 'in treasury', meaning that the shares remain in issue owned by the Company rather than being cancelled. Shares held in treasury are not entitled to receive any dividend declared by the Company or to exercise voting rights.

Any shares held in treasury may be subsequently cancelled or sold for cash. There is no limit on the number of ordinary shares which may be held in treasury.

Whilst the Company currently has authority until June 2021 to issue new shares or to sell its ordinary shares out of treasury for cash on a non-pre-emptive basis, the Directors do not intend to issue new shares or sell any shares out of treasury at a price which represents a discount to the then prevailing NAV per share. Any shares held in treasury should give the Company the ability to sell such shares quickly and cost efficiently and should provide the Company with additional flexibility in the management of its capital base. In addition, the Board believes that the effective use of treasury shares could assist the Company in improving liquidity in its shares and managing any imbalance between supply and demand.

There were no shares held in treasury at the year-end (31 December 2019: nil).

CIP Merchant Capital Limited

Report of the Directors (continued)

For the year ended 31 December 2020

Significant Shareholders' interests

The following registered shareholders had a significant interest of 3 per cent or more in the Company's issued ordinary share capital as at 31 December 2020, and as at the date of the signing of these Financial Statements:

Shareholder	% of issued share capital as at	
	31 December 2020	14 May 2021
Lynchwood Nominees Limited	18.90	27.40
The Bank of New York (Nominees) Limited		13.53
Vidacos Nominees Limited	18.84	11.64
Securities Services Nominees Limited	16.21	11.93
Aurora Nominees Limited	12.53	3.12
HSBC Global Custody Nominee (UK) Limited	9.92	-
Euroclear Nominees Limited	3.94	3.54
State Street Nominees Limited	3.55	-

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The Annual Report and Financial Statements are also distributed to other parties who have an interest in the Company's performance. Additional information on the Company can be obtained through its website at: www.cipmerchantcapital.com, and shareholders may raise any questions or concerns directly with the Company via the Investment Manager using the dedicated email address admin.guernsey@maitlandgroup.com.

Annual General Meeting

The date and time of the Company's 2021 AGM will be announced in due course, and the Notice and Form of Proxy will be mailed out to shareholders shortly thereafter.

Independent Auditor

The Audit Committee is responsible for overseeing the Company's relationship with its external auditor, including making recommendations to the Board on the appointment of the external auditor and their remuneration. BDO Limited ("BDO") has been appointed as the Company's external auditor.

The Directors make the following statement:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- that all steps have been taken by the Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The auditor, BDO, has indicated its willingness to continue in office. Accordingly, a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting.

CIP Merchant Capital Limited
Report of the Directors (continued)
For the year ended 31 December 2020

Alternative Investment Fund Managers Directive ('AIFMD')

As a company incorporated in Guernsey, the Company is a non-EU AIF for the purposes of the AIFM Directive. The Investment Manager acts as Alternative Investment Fund Manager ("AIFM") to the Company. The AIFM, also incorporated in Guernsey, is a non-EU AIFM for the purposes of the AIFM Directive. The Company and the AIFM comply and will continue to comply with the requirements of the AIFM Directive, as applicable to them.

Approved by the Board of Directors on 28 May 2021 and signed on behalf of the Board by

Rob King
Director

John Falla
Director

CIP Merchant Capital Limited

Corporate Governance Statement

For the year ended 31 December 2020

The Company is a member of the Association of Investment Companies (the “AIC”) and has therefore elected to comply with the provisions of the 2019 AIC Code of Corporate Governance (“AIC Code”) which sets out a framework of best practice in respect of the governance of investment companies. The AIC Code has been endorsed by the Financial Reporting Council as an alternative means for members to meet their obligations in relation to the UK Corporate Governance Code.

The Financial Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission (the “GFSC”) (the “GFSC Code”) provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board has considered the Principles and Provisions of the AIC Code, and a full scope review of the Company’s corporate governance processes and procedures has been conducted during the year with reference to the AIC Code by the Board and the Company Secretary. The AIC Code addresses the relevant Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The AIC Code is available on the AIC’s website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Considering that the Board includes three Independent Directors (including the Chairman), no Senior Independent Director has been appointed. The responsibilities of a Senior Independent Director, including the support of the Chairman in his role, is therefore shared between the other Independent Directors, Mr King and Mr Falla. In the event that shareholders have any questions or concerns they wish to raise with the Company, they are invited to do so freely by contacting either the Chairman, Mr King or Mr Falla.

Key Governance Disclosures

Section 172(1) Statement

Although Section 172 of the Companies Act 2006 only applies directly to UK domiciled companies, the Board notes that in accordance with Provision 5-5.2 of the AIC Code, it is the intention that matters set out in Section 172 are reported on by all companies, irrespective of domicile, provided this does not conflict with local company law. Therefore, through adopting the AIC Code, the Board acknowledges its duty to apply and demonstrate compliance with section 172 of the UK Companies Act 2006 and to act in a way that promotes the success of the Company for the benefit of its Shareholders as a whole, having regard to (amongst other things):

- the consequences of any decision in the long-term;
- the need to foster business relationships with suppliers, customers and others;
- the impact on community and the environment;
- maintaining reputation; and
- acting fairly as between members of the Company.

Section 172 of the UK Companies Act 2006, imposes on a director the duty to ‘act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole’ and, in so doing, to have regard to the key factors set out above which essentially refer to the promotion of social, environmental and governance objectives.

CIP Merchant Capital Limited
Corporate Governance Statement (continued)
For the year ended 31 December 2020

Key Governance Disclosures (continued)

The Board considers its duties as if it was covered by S.172 to be integrated within the Company’s culture and values. The Company’s culture is one of respect for the opinions of stakeholders, with an aim of carrying out its operations in a fair and sustainable manner that is both instrumental to the Company’s long-term success and which upholds the Company’s ethical values. The Board encourages diversity of thought and opinion in accordance with its Diversity Policy and encourages stakeholders to engage freely with the Board of Directors on matters that are of concern to them. Stakeholders may contact the Company via the Company’s dedicated e-mail address info@cipmerchantcapital.com or by post via the Company Secretary on any matters that they wish to discuss with the Board of Directors.

The table below outlines decisions made by the Board during the year under review that have contributed to the Company’s long term sustainable success and which are considered to be of importance both to the Company and its various stakeholder groups. In making these decisions and as will be the case for all future decisions of this nature, the Board considered the factors outlined within S.172 together with the wider interests of the Company’s stakeholders as a whole, acting with honesty and integrity at all times.

The Company is an externally managed investment company, has no employees, and as such is operationally quite straightforward. The Board does not believe that the Company has any material stakeholders other than those set out in the following table.

Investors	Service providers	Community and environment
Issues that matter to them		
Performance of the shares	Reputation of the Company	Compliance with Law and Regulation
Growth of the Company	Compliance with Law and Regulation	Impact of the Company and its activities on third parties
Liquidity of the shares	Remuneration	
Corporate Governance		
Engagement process		
Annual General Meeting	The main service providers engage with the Board in formal quarterly meetings, giving them direct input to Board discussions.	Due to the nature of the Company’s investments, the Company does not have a direct route to influence investees in regard to ESG matters, however the Board, together with the Investment Manager endeavor to pursue a strategy of responsible investment when pursuing future investment opportunities
Frequent correspondence with investors by the Investment Manager and subsequent reports to the Board	Communication between the Board and service providers also occurs informally on an ongoing basis during the year.	
Rationale and example outcomes		
The Board have engaged with shareholders in relation to the Company’s business over the course of the year.	The Company relies on service providers as it has no systems or employees of its own. The Board seeks to act fairly and transparently with all service providers, and this includes such aspects as prompt payment of invoices.	The Investment Manager works to ensure that sustainability and ESG factors are carefully considered and reflected in the Company’s investment decisions.

CIP Merchant Capital Limited
Corporate Governance Statement (continued)
For the year ended 31 December 2020

Key Governance Disclosures (continued)

Rationale and example outcomes		
<p>The majority of these matters were of a routine nature, save for the possible offer announced by CFE on 26 January 2021 (as discussed further within the Chairman’s Statement on page 4). The Company advised members by way of an announcement made on 15 February 2021 that the Board considered the possible offer price to significantly undervalue the Company.</p> <p>Following the Company’s most recent AGM held on 26 June 2020, the Board noted that there were a significant proportion of votes against resolutions 1-8, while resolutions 9-10 were not passed.</p> <p>The Board proceeded to carry out the following actions to address shareholder concerns following the AGM:</p> <ul style="list-style-type: none"> • Members who contacted the Company were consulted both verbally and in writing on matters of concern, including items such as the Company’s performance, share price discount levels and Board composition. The Board and the Investment Manager also liaised with investors on the Company’s behalf on an ad hoc basis. • As a direct result of this shareholder consultation, Piero Sansalone was appointed to the Board on 24 September 2020. 	<p>The Management Engagement Committee carries out a review of all service providers on an annual basis by way of each service provider completing a self-evaluation questionnaire This form allows each service provider the opportunity to raise any issues they wish to discuss with the Company.</p> <p>No major decisions affecting service providers were made this year, however going forward if service providers will be affected by a decision, those impacted will be consulted in advance.</p>	

CIP Merchant Capital Limited
Corporate Governance Statement (continued)
For the year ended 31 December 2020

Key Governance Disclosures (continued)

Rationale and example outcomes		
<ul style="list-style-type: none"> A dedicated Committee of directors, all of whom are independent of the Investment Manager, was formed specifically to engage with members on any concerns they wish to raise with the Company going forward. 		

Going Concern Statement

The Going Concern Statement is made on page 13.

Viability Statement

The viability statement is made on page 15.

Fair, Balanced and Understandable Statement

The Company has adopted the AIC Code, which requires the Directors to ensure that the Annual Report and Audited Financial Statements are fair, balanced and understandable. In order to reach a conclusion on this matter the Board has requested that the Audit Committee advises on whether it considers that the Annual Report and Audited Financial Statements fulfil these requirements. The process by which the Audit Committee has reached its conclusions in this regard is set out in the Audit Committee Report on pages 32 to 34.

Continuing Appointment of the Investment Manager

Further details relating to the continuing appointment of the Investment Manager, the review of such appointment by the Management Engagement Committee and how this is in the interests of members as a whole can be found on page 27.

Assessment of Principal and Emerging Risks

The Board has undertaken a robust assessment of the Company’s principal and emerging risks, together with the procedures that are in place to identify emerging risks. Further information on this assessment and an explanation on how these risks are being mitigated and managed can be found on pages 14 to 15.

Review of Risk Management and Internal Controls

The Board, assisted by the Audit Committee confirms that it has reviewed the Company’s system of risk management and internal controls for the year ended 31 December 2020, and to the date of the approval of this financial report and audited financial statements and found it to be satisfactory.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

The Board of Directors

The Board has been assembled, with the aid of the Company's advisers, to ensure that it has the appropriate breadth of experience and skills. As the Board as a whole fulfils the role of a Nominations Committee, the whole Board is responsible for reviewing the size, structure and skills of the Board and is responsible for considering whether any changes are required or new appointments are necessary to meet the requirements of the Company's business or to maintain a balanced Board. Further information regarding the Board's approach to Board composition, together with succession planning and evaluation, can be found on page 26. As at the date of this report, the Board remains confident that its composition is appropriate and is such that no one individual or small group of individuals dominates the Board's decision making.

The Directors are responsible for the Company's long term sustainable success and the generation of value for shareholders, and the determination of the Company's investing policy and strategy and have overall responsibility for the Company's activities including the review of investment activity and performance. In conducting the Company's affairs, the Directors have due regard to the wider interests of stakeholders as a whole. For further information on how the Board considers the interests of stakeholders in its decision making please see the S.172(1) statement on page 21.

The Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense, which is in accordance with provision 19 of the AIC Code. The Directors also have access to the advice and services of the Company Secretary through its appointed representatives who are responsible to the Board for ensuring that the Board's procedures are followed, and that applicable rules and regulations are complied with.

Independence

Mr Collins, Mr King and Mr Falla are currently considered by the Board to be independent of the Company and the Investment Manager and the Continental Investment Partners group. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. New Directors receive an induction from the Investment Manager and the Administrator on joining the Board, as was the case for the appointment of Mr Sansalone during the year, and all Directors receive other relevant training as necessary on their on-going responsibilities in relation to the Company.

Operation of the Board

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. The Company has neither any executive directors nor any employees. Accordingly, the Board engages external firms to undertake the investment management, secretarial and custodial activities of the Company under guidance. Documented contractual arrangements are in place between the Company and such firms, which clearly set out the areas where the Board has delegated authority to them.

The Board meets at least quarterly to review the overall business of the Group and consider the matters specifically reserved for it, which include strategic and policy considerations, board appointments and removals and financial items such as the approval of annual and interim reports. The quorum at Directors' meetings is two Independent directors present in person or by telephone. Detailed information is provided by the Investment Manager and Administrator for such meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and investment performance of the Company both in an absolute and relative sense. The Directors are provided with comprehensive board papers in advance of each quarterly meeting to allow the review of several key areas including the Company's investment activity, portfolio performance and risk management over the quarter relative to its investment policy. The Company Secretary keeps full and thorough minutes of all meetings.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

The Board of Directors (continued)

The Board also receives and reviews quarterly reports from the Registrar analysing and commenting on the composition of the Company's share register and has monitored significant changes to Shareholders during the reporting period.

Attendance at the Board, Audit Committee and Management Engagement Committee meetings during the year was as follows:

Director	Board Meetings		Audit Committee		Management Engagement Committee	
	Held	Attended	Held	Attended	Held	Attended
Adrian Collins	9	8	2	2	1	1
Robert King	9	9	2	2	1	1
Piero Sansalone*	3	3	-	-	-	-
Marco Fumagalli	9	7	-	-	-	-
Carlo Sgarbi	9	7	-	-	-	-
John Falla	9	9	2	2	1	1

*Mr Sansalone was appointed to the Board of Directors on 24 September 2020 and was therefore eligible to attend three meetings during the remainder of the year.

Appointment, re-election and remuneration of Directors

The Board fulfils the role of the Remuneration Committee due to the nature and size of the Company. Subject to the Companies Law and the Articles, the Directors shall have power at any time, and from time to time, without sanction of the Company in general meeting, to appoint any person to be a Director, either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-appointment. Subject to the Companies Law and the Articles, the Company may by ordinary resolution appoint any person as a Director; and remove any person from office as a Director.

A Director may resign from office as a Director by giving notice in writing to that effect to the Company at its registered office, which notice shall be effective upon such date as may be specified in the notice, failing which upon delivery to the registered office.

The Company's Articles require that at each annual general meeting: (i) each director who is not an Independent Director shall retire from office and each such director will offer themselves up for re-election by the members; and (ii) one third of the Independent Directors shall retire from office and each such Director may offer himself for election or re-election by the members. As the Company is a member of the AIC, the Directors have agreed that, in accordance with Provision 7.2-23 of the AIC Code, each Director both non-independent and independent will offer themselves up for election or re-election by the members at each annual general meeting.

Details of the Directors' remuneration can be found on page 17. The Board confirms that no director is responsible for setting his own remuneration.

Composition, Succession and Evaluation

The Board of Directors and its Committees are currently considered to be adequately composed in order to be able to discharge their duties effectively, however when considering new appointments in the future, the Board will ensure that a diverse group of candidates is considered in accordance with its Diversity Policy and that appointments are made against set objective criteria.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

The Board of Directors (continued)

The Board members have been briefed about their ongoing responsibilities as Directors as part of each individual Director's induction process and the Board receives ongoing guidance in this regard on an "as needed" basis from the Company Secretary and legal advisers.

The composition of the Board, together with its performance and approach to succession planning is considered annually at the time of the Board's annual performance appraisal.

The performance of the Board, its committees and individual Directors (including the Chairman) is evaluated annually through a self-assessment process coordinated by the Administrator which then circulates the findings. The Board will consider the need for, and the benefits of, having this process externally facilitated by an independent third party from time to time. The last such evaluation took place on 2 December 2020 where it was concluded that the Board was working effectively.

Board Committees

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems and overseeing the Company's relationship with its external auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). The Audit Committee also monitors the need for an internal audit function at least annually.

The Audit Committee comprises all of the Independent Directors, including the Chairman of the Company due to the fact that the Company only has three independent Directors with John Falla acting as the chair of the committee. The Audit Committee meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required. The Audit Committee also meets with the Company's external auditor as required.

Management Engagement Committee

The Company has established a Management Engagement Committee, comprising all of the Independent Directors, with Robert King acting as the chair of the committee. The Management Engagement Committee meets at least once a year.

The Management Engagement Committee carried out its annual review of the performance and capabilities of the Investment Manager on 18 March 2021 to confirm that the continued appointment of Merchant Capital Manager Limited as the Investment Manager was deemed to be in the interest of Shareholders. As part of the review process, the Management Engagement Committee concluded that the Company's outsourced service providers are performing in accordance with the Company's expectations and contractual arrangements.

The Management Engagement Committee's main function is to review and make recommendations on any proposed amendment to the Investment Management Agreement and keep under review the performance of the Investment Manager and other service providers.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

Board Committees (continued)

Other Committees

As previously noted, separate Remuneration and Nominations Committees have not been formed due to the size of the Company such that the Board as a whole fulfils the responsibilities typically undertaken by such committees. This includes the process for the appointment of directors as outlined on page 26, composition, succession and evaluation as outlined on page 26 and remuneration on page 17. The Company will revisit the need for additional committees to be formed in-line with the growth of the business.

In addition, the Board has the ability under the Articles to put in place sub-committees of the Directors to review ad-hoc pieces of information and take decisions based upon their findings, e.g. decisions in relation to the disclosure of information under the AIM Rules or MAR.

Committee of Independent Directors

A majority of Independent Directors are responsible for authorising all purchases and sales within the Company's portfolio. More specifically, the Investment Manager advises the Board on the Company's investment, management and disinvestment activities, other than in respect of the portfolio's management strategies. The majority of the Independent Directors are responsible for supporting or rejecting the advice of the Investment Manager. All investment decisions are subject to Board approval.

Internal control and financial reporting

The Board is responsible for establishing and maintaining the Company's system of internal controls. Internal control systems are designed to meet the specific needs of a company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss.

The key arrangements which have been established to provide effective internal controls include:

- Merchant Capital Managers Limited, as the Investment Manager is responsible for providing portfolio management and risk management services to the Company. It is also the AIFM for the purposes of the AIFMD;
- Maitland Administration (Guernsey) Limited is responsible for the provision of administration, accounting and company secretarial duties;
- Computershare Investor Services (Guernsey) Limited is responsible for the provision of Registrar services; and
- Strand Hanson Limited is responsible for the provision of Nominated Adviser and Broker services.

The Board clearly defines the duties and responsibilities of the Company's various agents and advisers in the terms of their respective contracts and in this regard, the Board:

- receives assurances from the Company's agents and advisers that any amendments required as a result of regulatory change, are actioned accurately and timeously; and
- reviews financial information and compliance reports produced by the Administrator on a regular basis.

As confirmed within the *Key Governance Disclosures* on page 21, the Board and Audit Committee have reviewed the Company's risk management and internal control systems (including financial, operational and compliance controls) and believe that the controls are satisfactory, given the size and nature of the Company.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

Key Service Providers

Investment Manager/AIFM

The Company's Investment Manager is Merchant Capital Manager Limited, which is licensed and regulated in Guernsey under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. The Investment Manager was founded by Marco Fumagalli and Carlo Sgarbi in August 2017 for the purpose of acting as the investment manager to the Company. Mr. Fumagalli and Mr. Sgarbi are the sole shareholders of the Investment Manager and accordingly it is an affiliate of CIP SA and its group.

The Company, the GP and the Investment Manager have entered into the Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager has been appointed to act as the Group's investment manager and AIFM, subject to the overall control and supervision of the Directors. The Investment Manager is entitled to receive, from the Company, a management fee which is calculated and paid quarterly in arrears at an annual rate of 2 per cent per annum of the prevailing net asset value.

The Investment Management Agreement may be terminated by the Investment Manager or the Company and the GP giving not less than 12 months' notice in writing, such notice to expire no earlier than the fifth anniversary of the Company's admission to trading on AIM. The Investment Management Agreement may also be terminated in certain customary circumstances, including change of control of the Investment Manager, deterioration of performance of the Investment Manager and if Marco Fumagalli and/or Carlo Sgarbi have ceased to be involved in the day to-day running of the business of the Investment Manager (and, in each case, the Company has declined the Investment Manager's nomination to replace such person), and if the Investment Manager ceases to be licensed and/or authorised and regulated by a relevant regulatory body. The Company has given certain market standard indemnities, confirmations and undertakings in favour of the Investment Manager in respect of the Investment Manager's potential losses in carrying on its responsibilities under the Investment Management Agreement.

The Investment Manager has entered into a services agreement with CIP. Under the services agreement, CIP SA provides certain investment due diligence, monitoring and reporting services to the Investment Manager. These services include, but are not limited to, carrying out bottom-up fundamental analysis of potential investee companies, preparation of due diligence reports, the monitoring and reporting of fund performance and investments, the monitoring of the listed and private equity and debt markets generally, introducing contacts to the Investment Manager with a view to enabling it to create and/or pursue investment opportunities and providing access to Continental Investment Partners' proprietary database of shadow investee companies and its proprietary screening to enable the Investment Manager to identify potential investee companies.

Administrator and Secretary

Maitland Administration (Guernsey) Limited has been appointed as Administrator and Secretary to the Company pursuant to the Administration Agreement dated 15 December 2017. Maitland was incorporated with limited liability in Guernsey on 20 January 2010 and is licensed by the GFSC under the POI Law.

Registrar

Computershare Investor Services (Guernsey) Limited has been appointed as Registrar to the Company pursuant to the Registrar Agreement dated 15 December 2017. In such capacity, the Registrar is responsible for the transfer and settlement of shares held in certificated and uncertificated form. The Company's share register may be inspected at the offices of the Registrar.

CIP Merchant Capital Limited

Corporate Governance Statement (continued)

For the year ended 31 December 2020

Anti-bribery and corruption

The Board acknowledges that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of the UK Bribery Act the Board reviews the perceived risks to the Company arising from bribery and corruption to identify aspects of the business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards both bribery and corruption, and reiterates its commitment to carry out business fairly, honestly and openly.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are taken into consideration with regard to investment decisions taken on behalf of the Company. The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

In asking the Company's Investment Manager to deliver against these objectives, they have also requested that the Investment Manager take into account the broader social, ethical and environmental issues of the investments within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long-term risk to the sustainability of their businesses. More specifically, they expect investee companies to demonstrate ethical conduct, effective management of their stakeholders' relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues.

Diversity Policy

The Company supports the AIC Code provision that Boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring it receives information from the widest range of perspectives and backgrounds. The Company's aim as regards the composition of the Board is that it should have a balance of experience, skills and knowledge to enable each Director and the Board as a whole to discharge their duties effectively. Whilst the Board of the Company agrees that it is entirely appropriate that it should seek diversity, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based wholly on merit. Accordingly, when changes to the Board are required, regard is paid to both the need for diversity and to a comparative analysis of candidates' qualifications and experience. A pre-established, clear, neutrally formulated and unambiguous set of criteria is to be utilised to determine the most suitable candidate for the specific position sought.

Share Dealing Code

The Company has adopted a share dealing code, in conformity with the requirements of the AIM Rules and MAR, and takes steps to ensure compliance by the Board and relevant senior staff with the terms of the policy.

Conflicts

There are potential and actual conflicts of interest between the Company, the Group, the Investment Manager, CIP SA and the other members of the Continental Investment Partners group of companies. Certain of these relationships are described below.

CIP Merchant Capital Limited
Corporate Governance Statement (continued)
For the year ended 31 December 2020

Conflicts (continued)

The Investment Manager, which is an affiliate of CIP, provides services to the Company and the GP. In due course, it may provide financial, investment and/or professional advice to other clients. CIP SA is involved in other financial, investment and professional activities and accordingly will not devote its full time and attention to the affairs of the Group.

The Investment Management Agreement generally does not limit or restrict the Investment Manager's ability to engage in any business or manage any other investment, subject to certain restrictions contained therein.

In such circumstances, it is the policy of the Investment Manager to endeavour to ensure that such conflicts are resolved, and any investment opportunities allocated, fairly. Each such conflict will be fully disclosed to the Company and the GP by the Investment Manager provided that such disclosure does not breach any law or regulation. In addition, the Investment Manager shall disclose to the Board prior to making any investment recommendation to the Company whether the Investment Manager or CIP SA has invested or intends to invest or co-invest in such investee company. Principals of the Investment Manager may take board positions at investee companies of the Company.

The Company has a right of first refusal in respect of any investment opportunity identified by the Investment Manager and/or CIP SA falling within the Company's investing policy. The Investment Manager, however, has no obligation to originate, sell or exchange any investment for the Company which the Investment Manager and/or CIP SA may originate, purchase, sell or exchange for one or more other funds/clients if the Investment Manager believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for the Company.

All final decisions in respect of any investment made or disposed of by the Group are made by the Board.

The activities of the Investment Manager, in its capacity as the Company's Investment Manager are subject to the overall policies, supervision and review of the Board.

John Falla
Director
28 May 2021

CIP Merchant Capital Limited

Audit Committee Report

For the year ended 31 December 2020

Background

The Audit Committee has been in operation throughout the year under review. The Audit Committee, chaired by John Falla, operates within clearly defined terms of reference (which are available from the Company's website, www.cipmerchantcapital.com), which include all matters indicated by DTR 7.1 and the AIC Code. Its other members are Adrian Collins and Rob King. Only Independent Directors can serve on the Audit Committee and members of the Audit Committee must have no links with the Company's external auditor and must be independent of the Company. The identity of the Chairman of the Audit Committee is reviewed on an annual basis and the membership of the Audit Committee and its terms of reference are kept under regular review. The Audit Committee meet at least twice a year in Guernsey, and meet the external auditor as required in Guernsey. The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect, with all members being highly experienced and, in particular two members having backgrounds as chartered accountants.

Duties

The duties of the Audit Committee in discharging its responsibilities include reviewing the Interim Report, Annual Report, the valuation of the Company's investment portfolio, the Company's system of internal controls, and the terms of appointment of the external auditor together with their remuneration. It is also the formal forum through which the external auditor reports to the Board and meets no less than twice a year and at such other times as the Audit Committee chairman shall require. The objectivity of the external auditor is reviewed by the Audit Committee, which also reviews the terms under which the external auditor is appointed to perform non-audit services and the fees paid to the external auditor or their affiliated firms overseas.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Group's financial statements, valuations prepared by the Investment Manager.

The main duties of the Audit Committee are:

- giving full consideration to, and recommending to the Board for approval, the contents of the Interim Report and Annual Report and reviewing the external auditor's report on the Annual Report;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing the draft valuation of the Company's investments, and making a recommendation to the Board on the valuation of the Company's investments;
- reviewing and recommending to the Board for approval of the audit, audit related and non audit fees payable to the external auditor and the terms of their engagement;
- reviewing and approving the external auditor's plan for the following financial year;
- reviewing the appropriateness of the Company's accounting policies;
- ensuring the standards and adequacy of the Company's internal control systems;
- reviewing the risks facing the Company and monitoring the risk matrix; and
- reviewing and considering the UK Code, the AIC Code and the FRC Guidance on Audit Committees.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken. The external auditor is invited to attend the Audit Committee meetings at which the Interim Reports and Annual Reports are considered and at which they have the opportunity to meet with the committee.

CIP Merchant Capital Limited

Audit Committee Report (continued)

For the year ended 31 December 2020

Financial Reporting

The primary role of the Audit Committee in relation to financial reporting is to review with the Administrator and any external consultant the appropriateness of the Interim Reports and Annual Reports, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with either an external consultant or the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy; and
- any correspondence from regulators in relation to the Company's financial reporting. To aid its review, the Audit Committee considers reports from the Investment Manager and also reports from the external auditor on the outcomes of any half-year review and the annual audit.

Meetings

The Audit Committee met formally on 3 April 2020 and 24 September 2020. The matters discussed at those meetings included:

- review of the terms of reference of the Audit Committee to confirm that they remain appropriate to the business of the committee and the current regulatory environment in which the Company operates;
- review of the accounting policies and format of the financial statements;
- the draft valuation of the Company's direct investments and investments in the LP, and the recommendation to the Board on the valuation of the Group's investments;
- review and approval of the audit plan of the external auditor;
- review, discussion and approval of the fee for the external audit;
- detailed review of the Annual Report and recommendation for approval by the Board;
- detailed review of the Interim Report and recommendation for approval by the Board;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Company's key risks and internal controls.

Primary area of judgement

The Audit Committee determined that the key risk of misstatement in the Group's financial statements related to the valuation of investments at fair value through profit or loss, in the context of the judgements necessary to evaluate current fair values. As outlined in note 6 to the financial statements, the total carrying value of the Group's investments at fair value at 31 December 2020 was £41,203,488.

The external auditor explained the results of their review of the valuations, including their challenge of management's underlying projections, the economic assumptions and multiples used. On the basis of their audit work, there were no adjustments proposed that were material in the context of the financial statements of the Group as a whole.

CIP Merchant Capital Limited

Audit Committee Report (continued)

For the year ended 31 December 2020

Internal Audit

The Audit Committee shall consider at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Company and all outsourced functions are with parties who have their own internal controls and procedures.

External Audit

BDO Limited (“BDO”) has been the Group’s external auditor since the Company’s inception. The lead audit director, Justin Hallett, has not changed during the year. Mr Hallett will be replaced in the year ended 31 December 2023 in accordance with normal audit director rotation arrangements. The objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services.

The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditor, with particular regard to any non-audit work that the external auditor may undertake and the level of fees associated with such non-audit work. In order to safeguard external auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the external auditor does not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the external auditor outside of these areas require the consent of the Audit Committee before being initiated. No non-audit services were provided during the year. The external auditor may not undertake any work for the Company in respect of the following matters – preparation of the financial statements, preparation of valuations used in the financial statements, provision of investment advice and taking management decisions or advocacy work in adversarial situations. The Audit Committee considers BDO to be independent of the Group. To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered:

- changes in audit personnel in the audit plan for the current year;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- the external auditor’s fulfilment of the agreed audit plan and variations from it; and
- reports highlighting the major issues that arose during the course of the audit.

The Audit Committee is satisfied with BDO’s effectiveness and independence as external auditor having considered the degree of diligence and professional skepticism demonstrated by them. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee recommended to the Board that BDO be reappointed as external auditor.

On behalf of the Audit Committee,

John Falla
Chairman of the Audit Committee
28 May 2021

Independent Auditor’s Report to the Members of CIP Merchant Capital Limited

Opinion on the financial statements

In our opinion, the financial statements of CIP Merchant Capital Limited (“the Company”) and its subsidiary Merchant Capital GP Limited (“the Group”):

- give a true and fair view of the state of the Group’s affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (“IFRSs”); and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of the Group for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes In Equity, the Consolidate Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors’ assessment of the Group’s ability to continue to adopt the going concern basis of accounting included:

- Obtaining from those charged with governance and the Directors a paper in respect of going concern, which included a cash flow forecast covering the period to December 2023 and discussing this with both those charged with governance and management.
- Consideration of the cash available, the liquidity of the portfolio held together with the expected annual running expenses of the Group.
- Reviewing the minutes of the Directors, the RNS announcements and the compliance reports for any indicators of concerns in respect of going concern.

Independent Auditor’s Report to the Members of CIP Merchant Capital Limited (continued)

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’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

Materiality basis	<i>1.5% (2019: 1.5%) of the Group’s total assets.</i>
Key audit matters (2020 and 2019)	<i>Investment valuation and existence.</i>
Materiality	<i>Group financial statements as a whole:- £646,000 (2019:£750,000) based on 1.5% (2019: 1.5%) of total assets.</i>

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.

This assessment took into account the likelihood, nature and potential magnitude of any misstatement. As part of this risk assessment we considered the Group’s interaction with the Manager and the Company’s administrator. We considered the control environment in place at the Manager and the Company’s administrator to the extent that it was relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

We carried out a full scope audit of the Company which was tailored to take into account the nature of the Company’s investments, involvement of the Investment Manager, the Company’s administrator and the custodian, the accounting and reporting environment and the industry in which the Company operates.

The Group consists of the parent Company and one subsidiary which was determined to be an insignificant component.

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. This matter was 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 this matter.

Independent Auditor’s Report to the Members of CIP Merchant Capital Limited (continued)

Key audit matter	How the scope of our audit addressed the key audit matter
<p><i>Investments valuation and existence (Notes 4 and 6)</i> The investment portfolio, whether held directly, or indirectly via the Limited Partnership, at 31 December 2020 comprised both listed and unlisted investments, unlisted warrants and a listed but not actively traded bond.</p> <p>This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations, which include significant judgement and assumptions, being prepared by the Investment Manager, who is remunerated based on the net asset value of the Group, derived using those valuations.</p> <p>We focused on the valuation and existence of all investments because investments represent the principal element of the net asset value as disclosed in the Statement of Financial Position in the financial statements.</p>	<p>For all listed investments, we agreed the existence of the investment portfolio holdings to the respective Custodian confirmations.</p> <p>For unlisted investments we agreed the warrants to the Custodian confirmation and obtained direct confirmation from the underlying investment for the unlisted investment.</p> <p>We tested the valuation of all listed investments held by agreeing the prices used in the valuation to independent third-party sources.</p> <p>For the unlisted warrants we obtained management’s valuation and verified the inputs to third party sources. We then challenged the valuation by using sensitivity analysis.</p> <p>For the listed but not actively traded bond, we obtained management’s valuation model and challenged the discount rate and cashflow assumptions used, these being the two most significant inputs into the model. This also included the consideration of external information in relation to the bond issuer and gaining an understanding of the impact that this had on the underlying model.</p> <p>For the unlisted investment, we obtained management’s valuation model challenging the key inputs in relation to the model which included the revenue multiple and underlying forecast assumptions used.</p> <p>Key observations</p> <p>Based on the procedures performed we did not identify any circumstances which may suggest that the investment valuations and existence is materially misstated.</p>

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.

Independent Auditor's Report to the Members of CIP Merchant Capital Limited (continued)

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

	Group financial statements	
	2020 £	2019 £
Materiality	646,000	750,000
Basis for determining materiality	1.5% of total assets	
Rationale for the benchmark applied	Due to it being an investment fund with the objective of long-term capital growth with investment values being a key focus of users of the financial statements.	
Performance materiality	420,000	487,500
Basis for determining performance materiality	65% of materiality This was determined using our professional judgement and took into account the complexity and our knowledge of the engagement together with history of minimal historical errors and adjustments.	

Specific materiality

We also determined that for investment income and sensitive fees which include investment management fees, administration fees, Directors' fees, legal and professional fees; audit fees, advisory and consultancy fees and brokerage and custody fees, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items based on 10% of materiality being £64,600 (2019: 75,000). We further applied a performance materiality level of 65% of specific materiality to ensure that the risk of errors exceeding specific 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 £19,380 (2019: £37,500) and for items audited to our lower materiality above £1,860 (2019: £3,750). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of CIP Merchant Capital Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Consolidated Audited Financial Statements, 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 (Guernsey) Law, 2008 reporting

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities within the Report of the Directors, 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 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 Company or Group 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.

Independent Auditor's Report to the Members of CIP Merchant Capital Limited (continued)

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:

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to its investment activities, and we considered the extent to which non-compliance might have a material effect on the Group's financial statements.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework such as IFRSs and the Companies (Guernsey) Law, 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of management override of controls), and determined that the principal risks were related to revenue recognition in relation to the investment income from the investments held either directly or indirectly via the Limited Partnership and management bias and judgement involved in accounting estimates, specifically in relation to the valuation of investments (the response to which is detailed in our key audit matters above).

Audit procedures performed by the engagement team to respond to the risks identified included:

- Discussion with and enquiry of management and those charged with governance concerning known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meetings of those charged with governance, correspondence with the Guernsey Financial Services Commission, internal compliance reports, complaint registers and breach registers to identify and consider any known or suspected instances of non-compliance with laws and regulations and fraud;
- Recalculating investment income and realised and unrealised gains and losses in full for listed investments based on external source information;
- For unquoted investments, recalculating realised and unrealised gains and losses in full. For investment income the amounts were recalculated where based on an agreement. Where not agreement based, we obtained direct confirmation from the underlying unquoted investee companies in relation to investment income; and
- Performing analytics on the mid-year net asset values with a focus on reviewing movements over a set threshold.

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:

Independent Auditor's Report to the Members of CIP Merchant Capital Limited (continued)

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

The engagement director on the audit resulting in this independent auditor's opinion is Justin Hallett.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

28 May 2021

CIP Merchant Capital Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Notes	Year to 31 December 2020 £	Year to 31 December 2019 £
Net losses on investments at fair value through profit or loss	6	(2,227,613)	(460,347)
Foreign exchange gains/(losses)		7,138	(16,335)
NET INVESTMENT LOSSES		(2,220,475)	(476,682)
INCOME			
Interest income		-	1,858
TOTAL INCOME		-	1,858
EXPENSES			
Investment manager fees	3, 11	(840,477)	(987,430)
Directors' fees	11	(94,228)	(87,500)
Secretarial and administration fees	3	(96,011)	(95,530)
Advisory and consultancy fees		(50,000)	(40,000)
Legal and professional fees		(18,818)	(27,886)
Brokerage and custody fees		(19,256)	(21,636)
Audit fees		(32,951)	(25,500)
Other fees		(54,699)	(51,903)
TOTAL EXPENSES		(1,206,440)	(1,337,385)
LOSS FOR THE FINANCIAL YEAR		(3,426,915)	(1,812,209)
Interest expense and similar charges		(312)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(3,427,227)	(1,812,209)
Diluted and basic loss per share (ordinary shares)	13	(0.06)	(0.03)

The notes form part of these financial statements

CIP Merchant Capital Limited
Consolidated Statement of Financial Position
As at 31 December 2020

	Notes	As at 31 December 2020 £	As at 31 December 2019 £
ASSETS			
<i>Non-current assets</i>			
Investments at fair value through profit or loss	6	<u>28,951,368</u>	<u>22,957,684</u>
		28,951,368	22,957,684
<i>Current assets</i>			
Investments at fair value through profit or loss	6	12,252,120	22,043,470
Receivables and prepayments	7	56,050	223,508
Cash and cash equivalents		<u>1,817,959</u>	<u>1,308,465</u>
		14,126,129	23,575,443
TOTAL ASSETS		43,077,497	46,533,127
LIABILITIES			
<i>Current liabilities</i>			
Payables and accruals	8	<u>(263,909)</u>	<u>(292,312)</u>
TOTAL LIABILITIES		(263,909)	(292,312)
TOTAL NET ASSETS		<u>42,813,588</u>	<u>46,240,815</u>
EQUITY			
Share capital	9	52,446,105	52,446,105
Retained earnings	10	<u>(9,632,517)</u>	<u>(6,205,290)</u>
TOTAL EQUITY		<u>42,813,588</u>	<u>46,240,815</u>
Net Asset Value per share	12	0.78	0.84

The Financial Statements were approved and authorised for issue by the Board on 28 May 2021 and signed on its behalf by:

John Falla
Director

Rob King
Director

The notes form part of these financial statements

CIP Merchant Capital Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

Notes	Share capital £	Retained earnings £	Total equity £
TOTAL EQUITY AS AT 1 JANUARY 2020	52,446,105	(6,205,290)	46,240,815
Total comprehensive loss for the period	-	(3,427,227)	(3,427,227)
TOTAL EQUITY AS AT 31 DECEMBER 2020	<u>52,446,105</u>	<u>(9,632,517)</u>	<u>42,813,588</u>

	Share capital £	Retained earnings £	Total equity £
TOTAL EQUITY AS AT 1 JANUARY 2019	52,446,105	(4,393,081)	48,053,024
Total comprehensive loss for the year	-	(1,812,209)	(1,812,209)
TOTAL EQUITY AS AT 31 DECEMBER 2019	<u>52,446,105</u>	<u>(6,205,290)</u>	<u>46,240,815</u>

The notes form part of these financial statements

CIP Merchant Capital Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2020

	Year to 31 December 2020 £	Year to 31 December 2019 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive loss	(3,427,227)	(1,812,209)
Adjustments for:		
Decrease in receivables and prepayments	167,458	244,493
Increase/(decrease) in payables and accruals	(28,403)	(15,302)
Net losses on investments at fair value through profit or loss	2,227,613	460,347
Foreign exchange (gains)/losses	(7,138)	16,335
	<u>(1,067,697)</u>	<u>(1,106,336)</u>
Investment income	362,171	400,445
Purchase of investments	(57,046,849)	(60,974,124)
Sale of investments	<u>58,254,731</u>	<u>57,369,055</u>
NET CASH GENERATED FROM / (USED) IN OPERATING ACTIVITIES	502,356	(4,310,960)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		
	502,356	(4,310,960)
Cash and cash equivalents at the beginning of the year	1,308,465	5,635,760
Gains/(losses) on exchange movements	7,138	(16,335)
Net increase/(decrease) in cash and cash equivalents	502,356	(4,310,960)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>1,817,959</u>	<u>1,308,465</u>

The notes form part of these financial statements

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended, on 13 September 2017 with registered number 64013, and is a registered closed-ended investment scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Registered Closed-ended Investment Scheme Rules (the “RCIS Rules”). The Company commenced business following the admission of the Company’s shares to trading on the AIM market of the London Stock Exchange on 22 December 2017.

The registered office of the Company is at 3rd Floor, 1 Le Truchot, St Peter Port, Guernsey, GY1 1WD.

The investment objective of the Company is to generate risk-adjusted returns for shareholders through investment in equity and equity-related products and instruments, by targeting appreciation in the value of its investments over the medium to longer term, principally through capital growth. Refer to the Corporate Summary for further detail on the investment objective.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

Basis of preparation

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

These financial statements are presented in Sterling, the Group’s functional currency, being the currency of the primary economic environment in which the Group operates.

The following accounting standards and their amendments were effective from 1 January 2020:

Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS39 and IFRS 7)	1 January 2020

The above standards do not have an impact on the Group’s current financial statements.

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group’s future accounting periods. Below is a list of these standards and interpretations and amendments which the Group has not early adopted. Effective dates refer to financial years commencing on or after the specified date.

Covid-19 Related Rent Concessions (Amendment to IFRS 16)	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest rate Benchmark Reform – Phase 2	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
IFRS 17 Insurance Contracts, Including Amendments to IFRS 17	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) and Classifications of Liabilities as Current or Non-current – Deferral of Effective date	1 January 2023

The Group is of the opinion that the revised IFRSs will have no material impact on the presentation and disclosure on the financial statements.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

The impact of the coronavirus (COVID-19) pandemic has continued to cause extensive disruptions to businesses and economic activities globally. Although COVID-19 has, and continues to have, an impact on the businesses and the valuation of our portfolio companies, the Directors have reviewed the Company's holdings of £47 million as at 14 May 2021, and consider that the Company will be able to meet its liabilities as they fall due while also availing itself of investment opportunities.

- cash and cash equivalents of £3.5 million held through the LP;
- short-dated treasury gilts of £6 million held by the Company;
- listed equities held through the LP of £33.4 million.

In addition, the Group does not have any external debt and therefore, the Directors believe that the aforementioned resources would be sufficient to meet the Group's annual running costs.

For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Investment entity exemption

The Investments are made by the Group via the limited partnership – Merchant Capital LP (the "LP" or "Limited Partnership"). The Limited Partnership meets the criteria within IFRS 10 to qualify as an investment entity. The Company itself also meets the definition of an investment entity.

As per IFRS 10 an investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company has therefore not consolidated the Limited Partnership on the basis of the Limited Partnership being an investment entity. The investment in the Limited Partnership has therefore been reflected at fair value.

Basis of Consolidation

As Merchant Capital GP Limited (the "GP") is itself not an investment entity, and is solely in the structure to be the general partner to the Limited Partnership which itself is providing services to the Company it has been consolidated.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted across the Group. The "Group" is defined as the Company and its subsidiary Merchant Capital GP Limited.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency

Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company, being Sterling, using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the Consolidated Statement of Financial Position.

Foreign exchange gains and losses arising from translation are included in the Consolidated Statement of Comprehensive Income.

Where foreign currency items are held at fair value, the foreign currency movements are treated as part of the fair value change.

Critical Accounting Estimates and Judgements

When preparing the Financial Statements management relies on a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates and assumptions.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is included in note 4.

Financial assets

Classification

The Group's financial assets are classified in the following measurement categories:

- those to be measured at fair value or through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets held at amortised cost

Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets held at amortised cost. The Group has applied the simplified approach permitted by IFRS 9 in respect of trade and other receivables. This approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group's financial assets held at amortised cost include trade and other receivables and cash and cash equivalents.

Financial assets at fair value through profit or loss

The investment into the Limited Partnership is measured at fair value as the business model is for capital appreciation and the Group manages and evaluates the performance on a fair value basis. The Limited Partnership holds listed and unlisted investments.

The Company's investment in short term debt instruments is for investment purposes only and are not held for the collection of contractual cashflows. They are carried at fair value through profit or loss as part of the overall fair valuing of the underlying investee.

The change in fair value is recognised in profit or loss and is presented within the 'net gains/(losses) on investments at fair value through profit or loss' in the Consolidated Statement of Comprehensive Income.

Recognition, derecognition and initial measurement

A financial asset (in whole or in part) is recognised either (i) when the Group has transferred substantially all the risks and rewards of ownership; or (ii) when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or (iii) when the contractual right to receive cash flow has expired.

Financial liabilities

Recognition

Financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the relevant financial instrument. Financial liabilities are initially recognised at fair value.

Classification and measurement

The Group only has financial liabilities which are classified as amortised cost using the effective interest method. This method discounts future cashflows of the liability using an effective interest rate to calculate its carrying value.

De-recognition of financial liabilities

A financial liability (in whole or in part) is derecognised when the Group's contractual obligation to deliver cash or other financial assets is extinguished i.e. is discharged, expires or is cancelled. Any gain or loss on de-recognition is recognised in the Consolidated Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash on deposit measured at amortised cost.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Equity instruments

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from proceeds.

Income

Bank interest income is accounted for on an accrual basis and is recognised in the Consolidated Statement of Comprehensive Income. Interest income includes interest earned on cash held at bank on call and on deposit using the effective interest method.

Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using contractual interest rates and is included within 'Net losses on investments at fair value through profit or loss' in the Statement of Comprehensive Income.

Dividend income from investments is accounted for on an ex-dividend basis, gross of applicable withholding taxes and is recognised in the Statement of Comprehensive Income within investment income when the Group's right to receive payments is established.

Segmental reporting

The decision maker is the Board. The Directors are of the opinion that the Group is engaged in a single segment of business with the primary objective of investing in securities to generate capital growth for shareholders. Consequently, no business segmental analysis is provided.

3. SIGNIFICANT ONGOING AGREEMENTS

The following significant contracts have been entered into by the Company:

Investment Management Agreement

The Company, the GP and Merchant Capital Manager Limited (the "**Investment Manager**") have entered into the Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager has been appointed to act as the Group's investment manager and AIFM, subject to the overall control and supervision of the Directors.

The Investment Manager receives from the Company an investment manager fee of 2.0 per cent per annum of the prevailing net asset value. The management fees are calculated on the last day of each quarter and are payable in arrears.

Administration Agreement

Under the Administration Agreement, Maitland Administration (Guernsey) Limited (the "**Administrator**") receives from the Company a fee computed and payable quarterly in arrears. The fee is calculated at the rate of 0.09 per cent of the net asset value of the Company with a minimum fee per annum of £40,000.

The Administrator also receives a quarterly periodic fee in respect of the Company Secretarial Services of £40,000 per annum. The Administrator is also reimbursed all out-of-pocket expenses reasonably incurred.

During the year the Administrator earned fees of £96,011 (2019: £95,530).

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

3. SIGNIFICANT ONGOING AGREEMENTS (continued)

Merchant Capital Limited Partnership Agreement

The Limited Partnership Agreement is an agreement between the GP, the Company and the Investment Manager dated 30 November 2017 pursuant to which the parties have agreed to establish the Limited Partnership in order to make investments pursuant to the Company's investing policy. The Limited Partnership shall continue until the one hundredth anniversary of the date of its registration under the Limited Partnerships (Guernsey) Law, 1995 (the "Partnership Law") unless it is dissolved or its life is extended under the Limited Partnership Agreement.

The Limited Partnership Agreement may be terminated in certain customary circumstances, including the death or insolvency of the general partner, agreement among the partners to terminate, and resignation, retirement, removal or withdrawal of the general partner in accordance with the terms of the agreement.

The GP has agreed to act as general partner of the Limited Partnership and will be solely responsible for the conduct and management of the Limited Partnership's business. The limited partners in the Limited Partnership, namely the Company and the Investment Manager, shall take no part in the management and control of the business and affairs of the Limited Partnership, and shall have no right or authority to act for the Limited Partnership or to take any part in or in any way interfere in the conduct or management of the Limited Partnership or to vote on matters relating to the Limited Partnership other than as set forth in the Limited Partnership Agreement and/or as permitted by the Partnership Law.

The GP, the Company and the Investment Manager have made capital contributions of £1, £799 and £200 to the Limited Partnership respectively. The Company is required to make loans to enable the Limited Partnership to meet its obligations as they fall due for such amount and for such purpose as the GP may request on not less than five business days' written notice (or such shorter period as may be necessary in an emergency). Where the Company makes a loan to the Limited Partnership, the Limited Partnership shall not pay interest on any loan and all loans shall be unsecured. While it remains a limited partner of the Limited Partnership, the Company shall not be entitled to be repaid all or any part of a loan other than on liquidation of the Limited Partnership or realisations by the Limited Partnership.

The Investment Manager will receive 20 per cent of the net realised cash profits from investments and follow-on investments made over the relevant period once the Company has received all loan capital and a preferred return that equates to 5 per cent for the relevant period and associated follow on period. The first relevant period ran from inception to 31 December 2019, with the follow on period ending on 31 December 2020. The second period started on 1 January 2020.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors make estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Fair value measurement

The Company invests in the Limited Partnership as per note 15. The fair value of the investment in the Limited Partnership is based on the net asset value of the Limited Partnership. This is based on the components within the Limited Partnership, see note 15 for more information.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

5. TAXATION

The Company is eligible for exemption from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and has paid an annual exemption fee of £1,200. It is the intention of the Directors to conduct the affairs of the Company to ensure that it continues to qualify for such exempt status.

There is no taxation charge included in the Consolidated Statement of Comprehensive Income as there has not been any irrecoverable withholding tax incurred on investment income received in the year.

The Limited Partnership is treated as a transparent entity for tax purposes which means that its profits are taxed directly in the hands of each partner.

6. INVESTMENTS

	Limited Partnership £ (Level 3) <i>Non-current</i>	Direct Investments £ (Level 1) <i>Current</i>	Total Investments £
Opening fair value as at 1 January 2020	22,957,684	22,043,470	45,001,154
Additions at cost	12,343,997	44,702,852	57,046,849
Disposal proceeds	(3,856,042)	(54,398,689)	(58,254,731)
Net realised gain/(loss) on disposal of investments	1,102,209	(101,861)	1,000,348
Net unrealised (loss)/gain on revaluation of investments	(3,596,480)	6,348	(3,590,132)
Closing fair value as at 31 December 2020	<u>28,951,368</u>	<u>12,252,120</u>	<u>41,203,488</u>

	Limited Partnership £ (Level 3) <i>Non-current</i>	Direct Investments £ (Level 1) <i>Current</i>	Total Investments £
Opening fair value as at 1 January 2019	16,351,413	25,905,464	42,256,877
Additions at cost	8,732,797	52,241,327	60,974,124
Disposal proceeds	(1,516,125)	(55,852,930)	(57,369,055)
Net realised loss on disposal of investments	(6)	(512,714)	(512,720)
Net unrealised (loss)/gain on revaluation of investments	(610,395)	262,323	(348,072)
Closing fair value as at 31 December 2019	<u>22,957,684</u>	<u>22,043,470</u>	<u>45,001,154</u>

The valuation of investments is discussed in more detail in note 15.

	2020 £	2019 £
Net realised gain/(loss) on disposal of investments	1,000,348	(512,720)
Net unrealised loss on revaluation of investments	(3,590,132)	(348,072)
Investment Income	362,171	400,445
Net losses on investments at fair value through profit or loss	<u>(2,227,613)</u>	<u>(460,347)</u>

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

7. RECEIVABLES AND PREPAYMENTS

	2020	2019
	£	£
Accrued income	48,421	223,508
Prepayments	6,601	-
Other receivables	1,028	-
	<u>56,050</u>	<u>223,508</u>

8. PAYABLES AND ACCRUALS

	2020	2019
	£	£
Investment manager fees	214,140	249,113
Administration and company secretarial fee	20,559	20,573
Audit fee	20,988	16,000
Other expenses	8,222	6,626
	<u>263,909</u>	<u>292,312</u>

9. SHARE CAPITAL

	Number of shares	Share Capital £
Ordinary shares		
Opening balance as at 1 January 2020	<u>55,000,000</u>	<u>52,446,105</u>
Balance as at 31 December 2020	<u>55,000,000</u>	<u>52,446,105</u>
	Number of shares	Share Capital £
Ordinary shares		
Opening balance as at 1 January 2019	<u>55,000,000</u>	<u>52,446,105</u>
Balance as at 31 December 2019	<u>55,000,000</u>	<u>52,446,105</u>

The Company was incorporated on 13 September 2017 with an issued share capital of £2 represented by 2 ordinary shares of £1 each. These shares were redeemed immediately following the share issue described below from the proceeds raised.

On 22 December 2017, the Company issued 55 million ordinary shares of no par value at £1 per share in an offer for subscription, raising £52,446,105 after expenses including broker fees and legal and professional fees of £2,553,895.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

10. RETAINED EARNINGS

Retained earnings represents the accumulated profit and loss of the Group and may be used for any purpose so long as the company law solvency requirements are met.

11. RELATED PARTY TRANSACTIONS

The basis of calculation of the fees due to the Investment Manager are set out in note 3. The Investment Manager earned remuneration of £840,477 (2019: £987,430) from the Company during the period in respect of normal services provided, with £214,140 (2019: £249,113) outstanding at the end of the year. In addition, £182,083 is included as an accrual (2019: £nil) for carried interest in accordance with the limited partnership agreement, reflecting investment performance as at 31 December 2020. The accrual of £182,083 is included in the fair value of the Limited Partnership investment as at 31 December 2020 and the expense relating to the accrual is included within 'Net losses on investments at fair value through profit or loss' in the Consolidated Statement of Comprehensive Income. Dependent on future investment performance, this amount may change, and any amount which remains accrued as at 31 December 2021 will crystallise only if the investment performance is maintained for a further twenty four months following 31 December 2020.

During the year, the Directors received remuneration fees of £94,228 (2019: £87,500) of which £nil (2019: £nil) was outstanding at the end of the year. The Independent Non-Executive Directors received an annual fee of £25,000 each. The Chairman receives an additional £10,000 and the Chairman of the Audit Committee receives an additional £2,500.

Mr Sgarbi and Mr Fumagalli have signed waiver letters dated 30 November 2017 waiving their Directors fees.

Mr Fumagalli, a Director of the Company, has an indirect beneficial interest in the Company, of 3.87 percent.

Mr Sgarbi, a Director of the Company, has an indirect beneficial interest in the Company of 3.87 percent and a direct beneficial interest in the Company of 0.4 per cent.

Mr J. Falla, a Director of the Company, has a direct beneficial interest in the Company of 0.02 percent.

Mr A. Collins, Chairman of the Company, has a direct beneficial interest in the Company of 0.09 percent.

Mr Nesta is an employee of Continental Investment Partners SA who serves as a Director of Merchant Capital GP (Malta) Limited through which the investment in Alkemy SpA is held and Merchant Capital HF Limited through which the interest in 7Star S.R.L is held. Mr Nesta is also a Director of 7Star S.R.L. Mr Sgarbi and Mr Fumagalli are also Directors of Merchant Capital GP (Malta) Limited.

Mr Sgarbi and Mr Fumagalli are Directors of IVY Merchant Capital Limited.

On 24 June 2019 the Company completed its syndication of a minority stake of its investment in 7Star S.R.L. to certain investors. Mr Sgarbi participated in the syndication subscribing for €100,000.

12. NET ASSET VALUE

The net asset value ("NAV") per share is expressed in pence and is determined by dividing the net assets attributable to shareholders of the Company by the number of ordinary shares in issue on the valuation day.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

13. BASIC AND DILUTED (LOSS) / EARNINGS PER ORDINARY SHARE

Basic (loss)/earnings per share is calculated by dividing the comprehensive loss for the year of £3,427,227 (2019: £1,812,209) by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares for the year is 55,000,000 (2019: 55,000,000).

The basic and diluted value is the same as the Company does not have any diluted type of shares.

14. DIVIDEND POLICY

It is the current intention of the Directors to reinvest the net proceeds of any realisations in the Company's portfolio. The Directors may consider the payment of dividends in the future.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's investing activities, through its Limited Partnership, exposes it to various types of risk that are associated with the investments in order to generate returns. The financial risks are: Market Risk, Liquidity Risk and Credit Risk.

Market risk

Market risk is affected by three main components: price risk, interest rate risk and currency risk.

Price risk

The Group is exposed to price risk on both its listed and financial instruments. There is a risk that the value of investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting the market.

If the prices of the Company's listed financial investments as at 31 December 2020 had increased by 5% (2019: 15%) with all other variables held constant, this would have increased net assets attributable to shareholders by approximately £612,606 (2019: £3,306,521). Conversely, if the prices had decreased by 5% (2019: 15%), this would have decreased net assets attributable to shareholders by approximately £612,606 (2019: £3,306,521).

The fair value of the Limited Partnership is directly impacted by the underlying investments held by the Limited Partnership. The underlying investments held by the Limited Partnership comprise listed investments, unlisted investments and unlisted warrants. No sensitivity has been prepared for the warrant, as it is immaterial.

If the listed prices of the Limited Partnership's listed investments (excluding investments in unlisted companies) as 31 December 2020 had increased by 15% (2019: 15%) with all other variables held constant, this would have increased net assets attributable to shareholders by approximately £3,092,690 (2019: £2,374,568). Conversely, if the prices had decreased by 15% (2019: 15%), this would have decreased net assets attributable to shareholders by approximately £3,092,690 (2019: £2,374,568). The sensitivity analysis for the Coro Bond and the investment in Happy Friends is not included in this analysis but shown separately below.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

The following table shows the change in net assets attributable to shareholders if the valuation of the Limited Partnership's unlisted investments changed as reflected below:

	Coro Bond	
31 December 2020	£	
If discount rate appreciated 5%	(280,704)	
If discount rate depreciated 5%	324,880	
	Happy Friends	
	£	
If revenue multiple increased 15%	122,689	
If revenue multiple decreased 15%	(204,482)	

	Coro Bond	Happy Friends
31 December 2019	£	£
If discount rate appreciated 5%	(280,704)	(193,330)
If discount rate depreciated 5%	324,880	247,268

Interest rate risk

The Group is exposed to interest rate risk to the extent that prevailing interest rates may fluctuate on any floating rate instruments.

The exposure at 31 December 2020 of financial assets and financial liabilities to interest rate risk is shown by reference to:

- Floating interest rates
- Fixed interest rates

Group	2020	2019
	£	£
Exposure to fixed interest rates*	15,520,199	23,066,628
Exposure to floating interest rates	-	2,000,795
Cash and cash equivalents (floating interest rate)**	5,087,518	1,308,465
	<u>20,607,717</u>	<u>26,375,888</u>

* Includes Limited Partnership interest rate risk exposure of £3,219,658 (2019: £3,023,953).

** Includes Limited Partnership interest rate risk exposure of £3,269,559 (2019: £nil).

The asset base that is subject to interest rate sensitivity as disclosed in the above table constitutes a small enough percentage of the assets that exposure to movements in interest rates will not be material to the Group and is therefore not disclosed.

Movements in interest rates that could impact the fair value of the Company's investments have been considered as market price risk above.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk

A proportion of the Group's portfolio is invested in investments denominated in a foreign currency and movement in exchange rates can significantly affect their Sterling value.

The Investment Manager does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions.

The fair values of the Group's assets that have foreign currency exposure at 31 December 2020 are shown below:

	US Dollar	Euro	Total
	£	£	£
31 December 2020			
Investments at fair value through profit or loss	3,521,535	7,795,646	11,317,181
Cash and cash equivalents	3,024	(2,226)	798
	<u>3,524,559</u>	<u>7,793,420</u>	<u>11,317,979</u>
	US Dollar	Euro	Total
	£	£	£
31 December 2019			
Investments at fair value through profit or loss	3,897,637	9,724,135	13,621,772
Cash and cash equivalents	3,120	-	3,120
	<u>3,900,757</u>	<u>9,724,135</u>	<u>13,624,892</u>

If the foreign currency exchange rates at 31 December 2020 had increased/decreased by 5% with all other variables held constant, this would have increased/decreased net assets attributable to shareholders as follow:

	US Dollar	Euro	Total
	£	£	£
31 December 2020			
If exchange rates appreciated 5%	185,503	410,180	595,683
If exchange rates depreciated 5%	(167,836)	(371,115)	(538,951)
	US Dollar	Euro	Total
	£	£	£
31 December 2019			
If exchange rates appreciated 5%	205,356	511,797	717,153
If exchange rates depreciated 5%	(185,799)	(463,054)	(648,853)

Included in the previous table are the movements impacting the underlying Limited Partnership.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table analyses the individual foreign currency movement in respect of the Limited Partnership:

	US Dollar	Euro	Total
	£	£	£
31 December 2020			
If exchange rates appreciated 5%	185,503	410,180	595,683
If exchange rates depreciated 5%	(167,836)	(371,115)	(538,951)
	US Dollar	Euro	Total
	£	£	£
31 December 2019			
If exchange rates appreciated 5%	205,356	511,797	717,153
If exchange rates depreciated 5%	(185,799)	(463,054)	(648,853)

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of liquid assets.

Liquidity risk is not significant as the majority of the Group's assets are investments in quoted securities which are readily realisable; their value is significantly in excess of the Group's financial liabilities.

All financial liabilities of the Group at the balance sheet date are payable within 3 months.

Credit risk

The Group is exposed to material credit risk on its cash and cash equivalents and investments. Failure of the transaction counterparty to perform their obligations under the financial instruments may lead to a financial loss. The credit risk in respect of cash balances is mitigated by placing cash with a reputable banking institution with a credit rating with a single A- (or equivalent) or higher credit rating as determined by an internationally recognised rating agency or gilts or otherwise approved by the Board.

No classes of financial assets contain impaired assets. The maximum exposure to credit risk over financial assets is the carrying value of those assets in the Consolidated Statement of Financial Position.

The Group does not have any collateral held as security or other credit enhancements as at 31 December 2020.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Valuation of financial instruments

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurements as a whole. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses, within the fair value hierarchy, the Company's financial assets (by class) measured at fair value at 31 December 2020:

31 December 2020	Level 1	Level 2	Level 3	Total
	£	£	£	£
Investments in LP	-	-	28,951,368	28,951,368
Debt instruments	12,252,120	-	-	12,252,120
	12,252,120	-	28,951,368	41,203,488
31 December 2019	Level 1	Level 2	Level 3	Total
	£	£	£	£
Investments in LP	-	-	22,957,684	22,957,684
Debt instruments	22,043,470	-	-	22,043,470
	22,043,470	-	22,957,684	45,001,154

During the year, there were no transfers between levels.

CIP Merchant Capital Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2020

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Valuation of financial instruments (continued)

The fair value of the investment in the Limited Partnership is based on the net asset value of the Limited Partnership. This is based on the components within the Limited Partnership. Further details regarding the components of the Limited Partnership can be found in the unaudited portfolio statement on page 62.

Alkemy SpA, Brave Bisson Group Plc, CareTech Holdings Plc, Coro Energy Plc, EKF Diagnostics Holdings Plc, Orthofix Medical Inc, Proactis Holdings Plc, Redde Northgate Plc and Totally Plc are all listed or quoted securities and therefore their fair value is determined using quoted bid prices as at close of business on 31 December 2020.

EKF distributed in kind a stake in Trellus Health Ltd, a telehealth-based connected care platform, which should be floated in the next twelve months. The investment is not considered to be material.

Merchant Capital HF Limited is an unquoted security and its fair value is based on the underlying investment in 7Star Srl, being the Company's investment in Happy Friends, which has been valued on a revenue multiple method. The multiples are considered to be unobservable inputs into the valuation. Sensitivity has been considered on page 56.

IVY Merchant Capital Limited and Merchant Capital GP (Malta) Limited are unquoted securities, which were incorporated during 2019 to hold investments made by the Company. Their fair value is based on the cost of the investment revalued with the 31 December 2020 exchange rate.

The Coro Energy Eurobond is valued using a DCF Model. The DCF Model calculates the net present value of the Bond and interest using market interest rates. The discount rate is considered to be an observable input. Sensitivity has been done on page 56. Coro Energy Plc warrants are priced using the Black- Scholes model which gives a theoretical estimate of the price of the option. The warrants are not material to the financial statements.

Capital risk management

The capital structure of the Company consists entirely of equity (comprising issued capital, reserves and retained earnings). The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis.

The ordinary shares may trade at a discount or premium to their Net Asset Value per share. However, the Directors and the Investment Manager monitor the discount on a regular basis and can use share buy backs to manage the discount.

The Company is not subject to any externally imposed capital requirements.

16. EVENTS AFTER THE REPORTING PERIOD

Following the reporting period, Corporation Financière Européenne S.A. ("CFE") on behalf of funds or vehicles which are managed or advised by it announced, pursuant to Rule 2.4 of the Code, that it was considering a possible all-cash offer for the issued and to be issued share capital of the Company at a price of 50 pence per ordinary share of no par value in the Company. CFE subsequently announced on 22 February 2021 that it did not intend to make an offer pursuant to Rule 2.7 of the Code for the ordinary shares of the Company. Accordingly, CFE is currently subject to the restrictions set out under Rule 2.8 of the Code with regards to CIP.

CIP Merchant Capital Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2020

16. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

It was announced on 1 March 2021 that the Company has been granted an option to acquire a further 41.6 per cent of Happy Friends' existing issued equity capital for an exercise period of 12 months at an aggregate exercise price of €5. The call option can be exercised at any time during the 12 month term. On expiry of the call option, the selling shareholders have the right, for a period of 30 calendar days thereafter to put the option shares on to the Company (or a third party nominated by the Company) for an aggregate price of €5. The option arrangement has been agreed in conjunction with the Company consenting, pursuant to its rights under the Happy Friends investors' and stakeholders' agreement, to the repayment of €203,818 of shareholder loans to the selling shareholders and the writing off of the balance of such shareholder loans, being €320,474, by Happy Friends.

CIP Merchant Capital Limited
Unaudited Portfolio Statement
As at 31 December 2020

	Issued currency	Valuation as at 31 December 2020		Valuation as at 31 December 2019	
		£	%	£	%
Merchant Capital L.P.					
Alkemy Spa*	EUR	2,578,732	6.02	2,835,409	6.13
Brave Bison Group Plc*	GBP	712,703	1.67	898,080	1.94
CareTech Holdings Plc*	GBP	7,210,420	16.84	4,199,000	9.08
Coro Energy Plc**	GBP	632,877	1.48	2,712,329	5.87
Coro Energy Plc warrants 12/04/2022***	GBP	5,967	0.01	202,878	0.44
Coro Energy Plc 5% 12/04/2022**	EUR	3,219,658	7.52	3,023,953	6.54
EKF Diagnostics Holdings Plc*	GBP	2,751,250	6.43	-	-
IVY Merchant Capital Limited***	EUR	1,074	-	1,017	-
Merchant Capital GP (Malta) Limited***	EUR	1,074	-	1,017	-
Merchant Capital HF Limited***	EUR	1,995,108	4.66	3,737,389	8.08
Orthofix Medical Inc*	USD	3,521,535	8.23	3,897,637	8.43
Proactis Holdings Plc*	GBP	1,271,250	2.97	1,288,000	2.79
Redde Northgate Plc*	GBP	1,805,515	4.22	-	-
Trellus Health Ltd***	GBP	31,151	0.07	-	-
Totally Plc*	GBP	102,500	0.24	-	-
Other liabilities	GBP	(182,083)	(0.43)	-	-
Other assets	GBP	23,078	0.05	160,975	0.35
Cash and cash equivalents	GBP	3,269,559	7.64	-	-
Fair value of Limited Partnership		28,951,368	67.62	22,957,684	49.65
The Company					
European Investment Bank 2.25% 07/03/2020*	GBP	-	-	6,014,918	13.01
European Investment Bank FRN 17/02/2020*	GBP	-	-	2,000,795	4.33
European Investment Bank 0.625% 17/01/2020*	GBP	-	-	5,999,402	12.97
United Kingdom, Bills 1.75% 07.09.2022*	GBP	6,191,880	14.47	-	-
United Kingdom, Bills 0.5% 22.07.2022*	GBP	6,060,240	14.15	-	-
United Kingdom, Bills 4.75% 07/03/2020*	GBP	-	-	5,036,850	10.89
United Kingdom, Bills 0% 18/05/2020*	GBP	-	-	2,991,505	6.47
Investments in the Company		12,252,120	28.62	22,043,470	47.67
Total Investments		41,203,488	96.24	45,001,154	97.32
Cash and cash equivalents		1,817,959	4.25	1,308,465	2.83
Other net current assets/(liabilities)		(207,859)	(0.49)	(68,804)	(0.15)
Total net asset value		42,813,588	100.00	46,240,815	100.00

* Quoted

** Quoted but not actively traded

*** Unquoted

CIP Merchant Capital Limited
Unaudited Portfolio Statement
For the year ended 31 December 2020

Reconciliation of Loss

The loss consists of:

	Year to 31 December 2020	Year to 31 December 2019
Merchant Capital L.P.		
Realised losses on investments	1,102,209	(6)
Unrealised losses on investments	<u>(3,596,480)</u>	<u>(610,395)</u>
LP Fair value movement	(2,494,271)	(610,401)
Other Gains/Losses:		
Realised losses on investments	(101,861)	(512,714)
Unrealised gains on investments	6,348	262,323
Exchange losses on currency balances	7,138	(16,335)
Investment income	362,171	400,445
Interest income	-	1,858
Investment management fees	(840,477)	(987,430)
Directors' fees	(94,228)	(87,500)
Secretarial and administration fees	(96,011)	(95,530)
Advisory and consultancy fees	(50,000)	(40,000)
Legal and professional fees	(18,818)	(27,886)
Brokerage and custody fees	(19,256)	(21,636)
Audit fees	(32,951)	(25,500)
Other fees	(54,699)	(51,903)
Interest expense and similar charges	<u>(312)</u>	<u>-</u>
Total comprehensive loss for the year	<u>(3,427,227)</u>	<u>(1,812,209)</u>

CIP Merchant Capital Limited

General information

As at 31 December 2020

The Company's ordinary shares were issued and admitted to trading on the London Stock Exchange's AIM market on 22 December 2017.

Directors

Adrian John Reginald Collins (Independent Non-Executive Chairman)
Marco Fumagalli (Non-Independent Non-Executive Director)
Carlo Sgarbi (Non-Independent Non-Executive Director)
John Martyn Falla (Independent Non-Executive Director)
Robert Paul King (Independent Non-Executive Director)
Piero Sansalone (Non-Independent Non-Executive Director)

Registered office

3rd Floor, 1 Le Truchot
St Peter Port GY1 1WD
Guernsey

Investment Manager and AIFM

Merchant Capital Manager Limited
3rd Floor, 1 Le Truchot
St Peter Port GY1 1WD
Guernsey

Nominated Adviser and Broker

Strand Hanson Limited
26 Mount Row
London W1K 3SQ
United Kingdom

Legal Advisers to the Company (as to English law)

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

Legal Advisers to the Company (as to Guernsey law)

Ogier
Redwood House
St Julian's Avenue
St Peter Port GY1 1WA
Guernsey

Administrator and Company Secretary

Maitland Administration (Guernsey) Limited
3rd Floor, 1 Le Truchot
St Peter Port GY1 1WD
Guernsey

CIP Merchant Capital Limited
General information (continued)
As at 31 December 2020

Independent Auditor

BDO Limited
Place du Pré
St Peter Port GY1 3LL
Guernsey

Registrar

Computershare Investor Services (Guernsey) Limited
1st Floor, Tudor House
Le Bordage
St Peter Port GY1 1DB
Guernsey