



Merseyside Special Investment Fund Limited

Annual report and consolidated financial statements

Registered No. 02981031

for the year ended 31 March 2020



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31 March 2020

Contents

	Page
Company information	3
Chairman's Statement	4
Directors' report	5
Statement of directors' responsibilities in respect of the annual report and the financial statements	8
Independent auditor's report to the members of Merseyside Special Investment Fund Limited	9
Consolidated Profit and Loss Account and Other Comprehensive Income	11
Consolidated and Company Balance Sheet	12
Consolidated and Company Statement of Changes in Equity	13
Consolidated Cashflow Statement	14
Notes to the financial statements	15

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31 March 2020

Company information

Directors

Mr N Ashbridge

Mr M Basnett

Mr J O'Brien

Mrs H Pittaway

Secretary

Mrs L Greenhalgh - resigned 17 May 2019

Ms G A Sloan - appointed 5 June 2019, resigned 9 November 2020

Independent Auditor

KPMG LLP

Chartered Accountants

8 Princes Parade

Liverpool

L3 1QH

Principal Bankers

Natwest Bank

2-8 Church Street

Liverpool

L1 3BG

Registered Office

2nd Floor

Exchange Court

1 Dale Street

Liverpool

L2 2PP

Chairman's Statement
for the year ended 31 March 2020

Merseyside Special Investment Fund's primary business remains that of lending to and investing in SMEs in the Liverpool City Region, whilst at the same time maintaining its own sustainable fund available to SMEs across the North West of England and North Wales. Through our fund managers, we offer a simplified approach to lending, which is personalised to our customers so that their needs are satisfied. At the time of writing this statement the country continues to suffer from the effects of the Covid-19 pandemic and businesses, particularly SMEs, are showing the strain. MSIF's role in supporting such businesses in the LCR at this time, could not be more critical.

In a year when we celebrated 25 years since the formation of MSIF, it is timely to reconfirm the strategy for the Group, establish the foundations to enable MSIF to build for the future and listen anew to what SMEs and other interested stakeholders want from MSIF.

To this end, we have reconstituted the Board of our fund manager subsidiary, Alliance Fund Managers ("AFM") with the appointment of two independent Non-executive Directors in John Walker and Kanesh Khilosia, with John taking responsibility as Chair. An MSIF independent director appointed in the year, Helen Pittaway, has also joined the AFM Board as MSIF's representative in September 2020. These measures are beginning to see positive results in the operational management of AFM and in a more appropriate consideration of the business's own strategy.

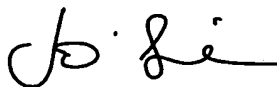
At an executive level the integration of the Spark Impact team into AFM with the appointment of Mark Borzomato to CEO and Marc D'Abbadie to COO have brought much needed experience and deal making capabilities into the team. This solid platform will enable AFM to grow its funds under management and significantly enhance the equity deal capability in the team. A positive step in the year under review was the award to AFM of the contract to manage the LCRCA Flexible Growth Fund, £20m loan fund to support projects being undertaken by growth businesses in the LCR. By the end of March 2020 this took funds under management for AFM to over £80m.

The year to 31 March 2020 was incredibly challenging with significant changes at Board and executive levels. The year culminated in the outbreak of the coronavirus pandemic and significant impact on SM's and the Group. Nevertheless, positive achievements were realised in:-

- Assisting over 56 businesses with funding of over £3.7 million.
- Realising over £1.1 million from an exit of one larger investment.
- Assisting over 482 businesses through the MSIF Finance Hub. £2.2m of funding was secured across 40 investments. Many of these businesses went on to secure funding with MSIF or other providers of funds, such as asset finance and invoice discounting. The MSIF Finance Hub team aims to provide support and assistance in order to make the process of accessing funding easier. It continuously monitors the North West financial landscape, to ensure the team has an up to date knowledge of all finance providers and products that can be suggested to any SMEs looking for funding.
- Holding two LCR Angel Network events at which businesses seeking funding made presentations to a pool of potential Angel investors (which is now over 116 individuals) with a strong mix of skills and money to invest in early stage businesses. We are delighted to have achieved promises of funding from LCR Angels for three businesses which presented at our Network events.
- Providing an initial £1m of funding to support the Government backed CBILS scheme utilising AFM accredited lender status under British Business Bank; subsequently this was increased to £3m later in 2020 as demand continued to grow.

With the steps taken to refocus its fund manager, MSIF in the 2020/21 financial year has sought to reset its own strategic direction. Work continues in this regard with a closer working relationship with the Liverpool City Region Combined Authority and the local LEP. Projects focusing on the enhancement of LCR Angels and the Finance Hub have commenced and a clearer view of the deployment of MSIF's available funds developed with an early stage fund in support of the Angel Network being a priority

Finally I would like to acknowledge and thank the team within the MSIF Group for their hard work and commitment to supporting SMEs, and assisting the growth of businesses wherever possible. It has been a challenging year in many respects, not least with the sad loss of Laura Moss a longstanding and dearly loved colleague. The team's resilience in the face of continuing challenge is highly commendable.



Mr J O'Brien
Chairman
Merseyside Special Investment Fund Limited
14 September 2021

Directors' report

The directors present their report and audited financial statements of the group and the company for the year ended 31 March 2020.

Merseyside Special Investment Fund ("MSIF") is a company limited by guarantee and was established in 1994 by the Bank of England, Liverpool Chamber of Commerce and representatives of the local community including Local Authorities, Training and Enterprise Councils, Business Links and Higher Education Authorities (MSIF Partners Limited) who act as guarantors. At the end of the 2007 Financial Year, The Liverpool City Region Growth Company (previously The Liverpool LEP and The Mersey Partnership) replaced the Bank of England as guarantor.

Principal activities

The company and group's principal activity is to facilitate the investment of venture and loan capital investment funds in small and medium sized enterprises (SMEs) and provide support and monitoring of those investments, thereby assisting to regenerate business in the region. The company and group is largely financed from its own resources.

Business review

MSIF's twenty fifth year has been typified by change, change in its Board and Executive teams and its funds under management. In the year AFM began the investment of the Liverpool City Region Combined Authority's Flexible Growth Fund and MSIF's own Coronavirus Resilience and Recovery CBILS Fund. MSIF continues to provide access to early stage funds and support, alongside Brabners and Grant Thornton, through the Liverpool City Region Business Angels Network. The continued success of the MSIF Finance Hub enables businesses that need help in securing investment have access to free support. Further commentary on the business performance in the year is contained in the Chairman's Statement.

Financial results

The Group made a loss in the year of £510,552 (2019: £614,553, as restated).

At 31 March 2020 the amount available for future investment on behalf of MSIF was £24,980,478 (2019: £24,632,185, as restated).

As detailed in Note 2 to the financial statements and summarised below, the following prior period adjustments have been made in relation to the year ended 31 March 2019.

(a) Following review of the group structure, in particular the determination of control over the limited partnerships within the Group, it has been concluded that Liverpool Seed Fund Limited Partnership, Merseyside Special Investment Venture Fund LP and Merseyside Special Investment Venture Fund No. 3 LP are ultimately controlled by MSIF and therefore should be consolidated within the Group accounts. The impact of consolidating the additional limited partnerships increases net assets as at 31 March 2019 by £1,067,791.

(b) The value of amounts payable to the Regional Growth Fund ("RGF") by Small Business Loans Limited has been recalculated during the year, reducing the net assets as at 31 March 2019 by £195,899.

(c) The results of Merseyside Loan and Equity Fund LLP, Small Business Loans Limited, North West Transitional Loan Investment Fund LLP and Merseyside Small Loans for Business Fund Limited have previously been eliminated from the consolidated profit and loss account, as the results are transferred to the investment reserve and therefore there is a net nil overall impact on the net profit or loss for the year. It has been concluded that the gross position should be reflected in the consolidated accounts and therefore the results and equal and opposite transfer to the investment reserve are now included in the profit and loss account. The impact of this adjustment increases net assets as at 31 March 2019 by £921,710. As part of this review, the directors have reclassified the Group investment loans of £5,931,789 from fixed assets to current assets.

(d) The provision held for repayment of funds returned from the company's investments to one of its original investors has been restated as a liability. The timing and amounts of the repayments were known and agreed upon as at 31 March 2019 and therefore, the amount should be held as a liability. The restatement has increased Creditors: amounts falling due after one year by £2,275,648 and reduced Other Provisions by the same amount as at 31 March 2019.

Directors' report
(continued)

Financial results (continued)

(e) Amounts owed by group undertakings due in more than one year previously reported as £5,002,844 as at 31 March 2019 has been reduced to £Nil. Amounts owed by group undertakings due within one year has been increased by £5,002,844, from the previously reported amount of £148,396 to the restated amount of £5,151,240.

The impact of the above adjustments increases net assets as at 31 March 2019 by £1,793,602, from £8,661,958 as previously stated, to £10,455,560 as restated. The profit as previously reported for the year ended 31 March 2019 has decreased by £833,364, from £218,811 as previously stated, to a loss of £614,553 as restated.

No dividends have been recommended to be paid during the year (2019: £Nil).

Future outlook

MSIF continues to make available funds for investment in SMEs in the Liverpool City Region via its Merseyside Loan & Equity Fund.

This fund is managed by AFM, alongside the NPIF Micro Loan Fund and the legacy returns under the Merseyside Small Loans for Business Fund and the North West Transitional Fund. The award to AFM in the year of the Liverpool City Region Flexible Growth Fund was a significant success. However, investing the fund has proved challenging with the growing impact of the pandemic but its focus on growth businesses is an important piece of the Combined Authority's Building Back Better response to the pandemic, which MSIF fully supports.

Principal risks and uncertainties

The directors believe that whilst there is inherent risk of non-recovery in providing loan and equity funds and that risk affects MSIF's ability to reinvest its returns, MSIF's portfolio is managed so as to minimise that risk.

Covid-19 implications

The Directors have considered the implications of the ongoing global Covid-19 pandemic and its possible impact on the business. Whilst in the short term a reduction in new investment opportunities of the kind common to the MSIF Group is noted, this has been replaced by funding requirements from SME's who themselves are impacted by the pandemic and require cash to continue to trade. This is evidenced in the Coronavirus Business Interruption Loan Scheme of which MSIF are an accredited lender.

Whilst there remain many uncertainties surrounding Covid-19, the Directors have felt it prudent to request the investment teams within the Group to discuss the implications with our investee companies as part of their general economic discussions, and where necessary are making appropriate arrangements to mitigate the risks and support their ongoing sustainability. Any necessary provisions have been made in the appropriate funds.

The directors have also considered the Group's own position in the context of Covid-19 and have a reasonable expectation that the Group has adequate resources to address any implications of the pandemic.

Brexit considerations

The Directors have continued to consider the possible implications of the impact of the UK's exit from the European Union ("Brexit") on the business. While there remain uncertainties surrounding Brexit, the Board is satisfied that the executive team has adequately considered such risks in the valuations of investee companies and that the Group has adequate resources to continue to operate successfully post Brexit.

Key Performance Indicators

The key performance indicators measured by MSIF are the number and value of investments made within the loan and equity funds, private sector funds leveraged, number of jobs created and the number of jobs preserved.

Directors' report
(continued)

Going concern

Taking into account the events of Covid-19 and Brexit as described in this report, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the Directors have considered the financial position and performance of the Company during the year, post year end and for the 12 month period from approval of the financial statements including appropriate sensitivities. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

Subsequent events

There are no events subsequent to the balance sheet date that require disclosure.

Directors

The Directors of the Company who were in office during the year, and up to the date of signing the financial statements, were:

Mr N Ashbridge

Mr M Basnett

Mrs L Greenhalgh - resigned 17 May 2019

Mr J O'Brien (Chairman)

Ms E O'Donnell - resigned 31 March 2020

Mrs H Pittaway - appointed 29 January 2020

No Director of the Company has any interest in the Company within the meaning of the Companies Act 2006.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Employees

The contribution and co-operation of every employee are essential, highly valued and hereby acknowledged.

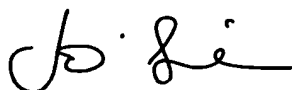
Political contributions

Neither the Company nor any of its subsidiaries made any political contributions during the year.

Auditor

KPMG LLP are deemed to be reappointed as auditors under section 487 of the Companies Act 2006.

By order of the board



J O'Brien
Director

2nd Floor Exchange Court
1 Dale Street
Liverpool
L2 2PP
14 September 2021

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



Independent auditor's report to the members of Merseyside Special Investment Fund Limited

Opinion

We have audited the financial statements of Merseyside Special Investment Fund Limited ("the company") for the year ended 31 March 2020 which comprise the consolidated Profit and Loss Account and Other Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.



**Independent auditor's report to the members of Merseyside Special Investment Fund Limited
(continued)**

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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.

A handwritten signature in black ink, reading 'Carla Kennaugh'.

Carla Kennaugh (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Princes Parade
Liverpool
L3 1QH

Date: 14 September 2021

Merseyside Special Investment Fund Limited
Annual report and consolidated financial statements
Registered No. 02981031
31 March 2020

**Consolidated Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2020**

	Notes	2020 £	2019 As restated (See Note 2) £
Turnover			
Fee and other income	3	1,382,873	1,662,137
Administrative expenses		(1,859,397)	(1,608,680)
Investment loss recoveries		5,245	1,267
Movement in fair value of investments		2,145,000	372,840
Movement in provision for investment losses		(205,084)	(95,693)
Amounts written off investments		(1,606,673)	(1,284,826)
Amounts attributable to RGF		<u>29,354</u>	<u>(1,892)</u>
Operating loss		(108,682)	(954,847)
Interest receivable and similar income	6	155,807	166,880
Interest payable and similar expenses		(7,110)	(1,961)
Movement in fair value of fixed asset investment		(227,075)	362,888
Loss before taxation	8	(187,060)	(427,040)
Tax on loss	8 (a)	11,307	-
Loss for the financial year		(175,753)	(427,040)
Transfer to Investment reserve		(348,292)	(559,834)
Loss after transfers to reserves		(524,045)	(986,874)
Loss attributable to Non Controlling Interests		(13,493)	(372,321)
Loss after transfers to reserves and Non Controlling Interests		<u>(510,552)</u>	<u>(614,553)</u>

The results shown above derive from continuing operations in both the current and preceding year.

The group has no other recognised income other than those included in the results above and therefore no separate Other Comprehensive Income statement has been presented.

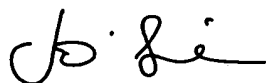
The accounting policies and notes on pages 15 to 26 form part of these financial statements.

Merseyside Special Investment Fund Limited
Annual report and consolidated financial statements
Registered No. 02981031
31 March 2020

Consolidated and Company Balance Sheet
as at 31 March 2020

	Notes	Group 2020	2019 As restated (See Note 2)	Company 2020	2019 As restated (See Note 2)
		£	£	£	£
Fixed assets					
Tangible assets	9	6,939	24,117	3,708	15,120
Financial assets	10 (a)	5,295,471	3,500,606	-	-
Investments	10 (b)	10,242,293	10,450,736	10,538,822	10,746,477
		<u>15,544,703</u>	<u>13,975,459</u>	<u>10,542,530</u>	<u>10,761,597</u>
Current assets					
Investment loans <i>(including £2,196,656 (2019: £2,644,367) due in more than one year)</i>	10 (a)	4,704,011	5,931,789	-	-
Debtors amounts falling due within one year	11	170,945	1,095,935	3,475,646	5,998,146
Cash and cash equivalents	12	18,488,621	18,089,293	13,611,473	13,256,841
		<u>23,363,577</u>	<u>25,117,017</u>	<u>17,087,119</u>	<u>19,254,987</u>
Creditors: amounts falling due within one year	13	<u>(27,298,151)</u>	<u>(26,301,422)</u>	<u>(19,866,999)</u>	<u>(20,751,775)</u>
Net current liabilities		<u>(3,934,574)</u>	<u>(1,184,405)</u>	<u>(2,779,880)</u>	<u>(1,496,788)</u>
Total assets less current liabilities		11,610,129	12,791,054	7,762,650	9,264,809
Creditors: amounts falling due after one year	14	(1,694,648)	(2,351,527)	(1,525,648)	(2,275,648)
Provisions for liabilities	16	-	-	-	-
Net assets		<u>9,915,481</u>	<u>10,439,527</u>	<u>6,237,002</u>	<u>6,989,161</u>
Reserves					
Profit and loss account		9,773,908	10,284,461	6,237,002	6,989,161
Non Controlling Interests		141,573	155,066	-	-
		<u>9,915,481</u>	<u>10,439,527</u>	<u>6,237,002</u>	<u>6,989,161</u>

These financial statements were approved by the board of directors on 14 September 2021 and were signed on its behalf by:



J O'Brien
Director

Merseyside Special Investment Fund Limited
Annual report and consolidated financial statements
Registered No. 02981031
31 March 2020

Consolidated and Company Statement of Changes in Equity

	Group Profit and loss account	Group Non- Controlling Interests	Group Total	Company Profit and loss account
	As restated (See Note 2)	As restated (See Note 2)	As restated (See Note 2)	
	£	£	£	£
Balance at 1 April 2018 (as originally stated)	8,443,147	-	8,443,147	6,832,237
Restatement	2,455,866	527,387	2,983,253	-
Balance at 1 April 2018 (as restated)	10,899,013	527,387	11,426,400	6,832,237
Total comprehensive income for the year				
(Loss)/Profit for the year (restated)	(614,553)	(372,321)	(986,874)	156,924
Balance at 31 March 2019 (restated)	10,284,460	155,066	10,439,526	6,989,161
	Group Profit and loss account	Group Non- Controlling Interests	Group Total	Company Profit and loss account
	£	£	£	£
Balance at 1 April 2019	10,284,460	155,066	10,439,526	6,989,161
Total comprehensive income for the year				
Loss for the year	(510,552)	(13,493)	(524,045)	(752,159)
Balance at 31 March 2020	9,773,908	141,573	9,915,481	6,237,002

Merseyside Special Investment Fund Limited
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Consolidated Cashflow Statement
for the year ended 31 March 2020

	Notes	2020 £	2019 As restated (See Note 2) £
Net cash outflow from operating activities before interest and taxation	21	219,155	(516,172)
Interest received		82,241	79,008
Interest paid		(6,038)	(3,561)
Taxation			
Corporation tax refund received	8	11,307	-
Net cash inflow from operating activities		306,665	(440,725)
Cashflows from investing activities			
Fixed assets acquired	9	(2,503)	(804)
Investment in portfolio fund		-	(2,000,000)
Loan and Equity investments made	10	(3,326,316)	(4,420,901)
Loan repayments received	10	3,353,002	4,482,378
Net cash inflow/(outflow) from investing activities		24,183	(1,939,327)
Cashflows from financing activities			
Loans drawdown		94,000	75,000
Loans repaid		(25,520)	(53,236)
Repayment of partners capital account		-	(43,000)
Net cash inflow from financing activities		68,480	(21,236)
Net increase/(decrease) in cash in year		399,328	(2,401,288)
Cash and cash equivalents at 1 April		18,089,293	20,490,581
Cash and cash equivalents at 31 March	12	18,488,621	18,089,293

Notes to the financial statements

1 Accounting policies

Merseyside Special Investment Fund Limited (the "Company") is a company limited by guarantee and incorporated, domiciled and registered in the UK. The registered number is 02981031 and the registered address is 2nd Floor, Exchange Court, 1 Dale Street, Liverpool, L2 2PP.

1.1 Basis of preparation

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis, except for equity investments which are measured at fair value.

1.3 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons. The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which take into account actual experience as a result of the COVID pandemic. These forecasts indicate that, taking account of severe but plausible downsides, and the anticipated impact of COVID-19 on the operations and its financial resources, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Management have considered various scenarios reflecting the stress testing of forecasted revenue, this includes the reduction in the forecasted return of revenues and also the effect of a further lockdown. These scenarios all show a positive cash balance and profits being made and therefore have not affected the conclusion reached.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2020. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

An associate is an entity in which the group has significant influence, but not control, over the operating and financial policies of the entity. Significant influence is presumed to exist when the investors holds between 20% and 50% of the equity voting rights.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.5 Group financial assets

Fair value measurement

Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. The following hierarchy is used to estimate fair values:

(a) The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

(b) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an estimate of the fair value is made by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

(d) Equity investments are valued using an appropriate valuation technique. For an established business we use a multiple of maintainable earnings and apply a marketability discount. To ensure that we use an appropriate multiple, we will use our entry multiple for new investments, or the multiple used in any offers received or valuation exercises performed for recent comparable deals. Where we consider that the maintainable earnings method does not give an accurate valuation we have used a net assets valuation.

The group determines the fair value of the investments with reference to the hierarchy.

Loan investments

Loan investments are measured at amortised cost using the effective interest rate method, which includes a reduction for impairment or uncollectability where necessary.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition, investments that can be measured reliably are measured at fair value with diminutions recognised through the Investment Reserve, in other creditors.

**Notes to the financial statements
(continued)**

1 Accounting policies (continued)

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments, discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss or investment reserve as appropriate.

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a reducing balance basis at the following rate:

- fixtures and fittings 25% per year

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.9 Government grants

Amounts received from government agencies by the company have been invested in Liverpool City Region ("LCR") enterprises through a number of limited partnerships and limited liability partnerships. Due to the nature of the investments made through the partnerships, the amounts invested are fully provided for, and the corresponding creditor to the government agencies released due to the significant uncertainty over recovery. Amounts that have been generated by the partnerships, have been remitted back to the company, and the provision against the investment in the partnerships has been reversed. An investment reserve is then created which is included in other creditors. This balance represents amounts that must be either reinvested in LCR enterprises, or are due back to the government agencies who initially provided the funding.

1.10 Impairment excluding deferred tax assets

Financial assets (including other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.11 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.12 Judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumption that affect the application of the accounting policies and the reported amounts of assets and liabilities and revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key judgements and estimates made by the directors in the application of these accounting policies are in respect of the valuation of investments.

1.13 Turnover

Fees and other income

Fees and other income represents principally fund management, investment arrangement, monitoring fees and interest receivable. Income is from sale of services and is recognised as it accrues.

**Notes to the financial statements
(continued)**

1 Accounting policies (continued)

1.14 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

1.15 Employee Benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.16 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.17 Audit exemption for subsidiaries

Advantage has been taken of the audit exemption available for small companies conferred by section 479a of the Companies Act 2006 on the grounds:

- a. that for the year ended 31 March 2020 the company was entitled to the exemption from a statutory audit under section 479a of the Companies Act 2006 relating to small companies; and
- b. that no notice has been deposited under section 476 of the Companies Act 2006 in relation to the financial statements for the financial year.

The directors acknowledge their responsibilities for:

- a. ensuring that the company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and
- b. preparing financial statements which give a true and fair view of the state of the affairs of the company at 31 March 2020 and of its profit or loss for the year then ended in accordance with the requirement of section 394 of the Companies Act 2006, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements so far as applicable to the company.

The following companies have taken advantage of the exemption from audit under Section 479a of the Companies Act 2006:-

AFM Merseyside Mezzanine Limited (04274232), AFM Merseyside Ventures Limited (04274737), AFM Small Firms Fund Limited (04275276), Alliance Fund Managers Nominees Limited (04277713), AFM R101 Ventures Limited (04274723), AFM Seed Fund Limited (05303817), BCE Fund Managers (Merseyside) Limited (03147091), Liverpool Ventures Limited (04894769), LVL Seed Fund Limited (05303818), Merseyside Special Investment Mezzanine Fund Two Limited (04257322), MSIF Seed Fund Limited (05303819), Merseyside Special Investment Venture Two Limited (04257309), Merseyside Special Investment Venture Fund Limited (03104077), Merseyside Special Investment (Small Firms) Fund Two Limited (04257331), AFM NWF General Partner LLP (OC392158), AFM NPIF General Partner LLP (OC415599), AFM Business Growth Limited (10829228).

Notes to the financial statements
(continued)

2 Prior period adjustment

The financial statement include prior period adjustments for a number of issues identified during the year. The nature of these adjustments and reason for them is summarised below.

(a) Following review of the group structure in the year, in particular the determination of control over the limited partnerships within the Group, it has been concluded that Liverpool Seed Fund Limited Partnership, Merseyside Special Investment Venture Fund LP and Merseyside Special Investment Venture Fund No. 3 LP are ultimately controlled by MSIF and therefore should have been consolidated within the Group accounts since inception. This has therefore resulted in a prior period adjustment to consolidate the results of the given entities for the year ended 31 March 2019.

(b) Under the terms of the agreement held between Small Business Loans Limited ("SBL") and RGF, investment income must be set aside for future reinvestment; revenue and capital generated can be used to pay the reasonable operating costs, amongst other things. That has always been the intention of the directors. Consequently, it is now considered appropriate that any excess of income over reasonable operating costs should be added to the amounts payable to RGF, demonstrating that these funds are earmarked for future investment or possible repayment to RGF.

Following a review in the year, amounts payable to RGF by SBL has been recalculated to more accurately reflect the balance and the amounts available for reinvestment.

(c) In previous years, the results of Merseyside Loan and Equity Fund LLP, Small Business Loans Limited, North West Transitional Loan Investment Fund LLP and Merseyside Small Loans for Business Investment Fund Limited were included in the consolidated balance sheet, but the profit for the year, and the assets and liabilities of those entities were presented net as an entry to the investment reserve. In consolidating those entities, their gross balances should have been included in the consolidated accounts. Therefore a prior period adjustment is required to correctly present the gross amounts in the Group Profit and Loss Account and Balance Sheet.

(d) Finally, following review of the Other Provisions balance, in particular the provision held for repayment of funds returned from the company's investments to one of its original investors, it has been concluded that this amount should be disclosed as a liability, rather than as a provision. The timing and amounts of the repayments were known and agreed upon as at 31 March 2019 and therefore, the amount should be held as a liability. This has resulted in a prior period adjustment to reclassify the balance.

The effect of the restatement on the Group's comparative figures is set out below:

	As previously reported - Group	See (a)	See (b)	See (c)	See (d)	As restated
	£	£	£	£	£	£
Profit and loss						
Fee and other income	1,254,068	78,529	-	329,540	-	1,662,137
Administrative expenses	(1,563,415)	(9,702)	-	(35,563)	-	(1,608,680)
Investment loss recoveries	-	-	-	1,267	-	1,267
Movement in fair value of investments	-	-	-	372,840	-	372,840
Movement in provision for investment losses	-	(1,188,712)	(8,000)	1,101,019	-	(95,693)
Amounts written off investments	-	(85,800)	-	(1,199,026)	-	(1,284,826)
Amounts attributable to RGF	-	-	(1,892)	-	-	(1,892)
Operating loss	(309,347)	(1,205,685)	(9,892)	570,077	-	(954,847)
Interest receivable and similar income	165,270	-	-	1,610	-	166,880
Interest payable and similar expenses	-	-	-	(1,961)	-	(1,961)
Movement in fair value of fixed asset investment	362,888	-	-	-	-	362,888
Profit/(loss) before taxation	218,811	(1,205,685)	(9,892)	569,726	-	(427,040)
Tax on loss	-	-	-	-	-	-
Profit/(loss) for the financial year	218,811	(1,205,685)	(9,892)	569,726	-	(427,040)
Transfer to Investment reserve	-	-	-	(559,834)	-	(559,834)
Profit/(loss) after transfers to reserves	218,811	(1,205,685)	(9,892)	9,892	-	(986,874)
Loss attributable to Non Controlling Interests	-	(372,321)	-	-	-	(372,321)
Profit/(loss) after transfers to reserves and Non Controlling Interests	218,811	(833,364)	(9,892)	9,892	-	(614,553)
Balance sheet						
Fixed assets						
Tangible assets	24,117	-	-	-	-	24,117
Financial assets	9,134,464	297,931	-	(5,931,789)	-	3,500,606
Investments	10,450,736	-	-	-	-	10,450,736
	19,609,317	297,931	-	(5,931,789)	-	13,975,459
Current assets						
Investment loans	-	-	-	5,931,789	-	5,931,789
Debtors amounts falling due within one year	1,097,081	(1,146)	-	-	-	1,095,935
Cash and cash equivalents	17,698,687	390,606	-	-	-	18,089,293
	18,795,768	389,460	-	5,931,789	-	25,117,017
Creditors: amounts falling due within one year						
Trade creditors	(126,190)	-	-	-	-	(126,190)
Taxation and social security	(147,747)	-	-	-	-	(147,747)
Other creditors	(296,750)	-	-	-	-	(296,750)
Other creditors - investment reserve	(25,971,135)	387,000	-	905,677	-	(24,678,458)
Amounts attributable to RGF	-	-	(862,899)	-	-	(862,899)
Accruals and deferred income	(157,258)	(6,600)	-	-	-	(163,858)
Bank loans	(25,520)	-	-	-	-	(25,520)
Net current liabilities	(7,928,832)	769,860	(862,899)	6,837,466	-	(1,184,405)
Total assets less current liabilities	11,680,485	1,067,791	(862,899)	905,677	-	12,791,054
Creditors: amounts falling due after one year						
Bank loans	(75,879)	-	-	-	-	(75,879)
Amounts payable to RGF	(667,000)	-	667,000	-	-	-
Amounts payable to ERDF	-	-	-	-	(2,275,648)	(2,275,648)
Provisions for liabilities						
Provisions for liabilities	(2,275,648)	-	-	-	2,275,648	-
Net assets	8,661,958	1,067,791	(195,899)	905,677	-	10,439,527
Reserves						
Profit and loss account	8,661,958	912,725	(195,899)	905,677	-	10,284,461
Non Controlling Interests	-	155,066	-	-	-	155,066
	8,661,958	1,067,791	(195,899)	905,677	-	10,439,527

Notes to the financial statements
(continued)

2 Prior period adjustment (continued)

The following restatements have been made:

(a) The impact of consolidating the additional limited partnerships increases net assets by £1,067,791 as at 31 March 2019 and £2,273,476 as at 31 March 2018 and results in an additional loss of £1,205,685 for the year ended 31 March 2019, of which £833,364 was attributable to MSIF and £372,321 was attributable to non-controlling interests. MSIF does not own 100% of the capital of Merseyside Special Investment Venture Fund LP nor Merseyside Special Investment Venture Fund No. 3 LP. Therefore a non-controlling interest ("NCI") has been recognised in relation to the NCI's shares of the result for the year ended 31 March 2019 and to reflect the NCI's capital interests in both entities. NCI within equity of £155,066 at 31 March 2019, and £527,387 at 1 April 2018, has been recognised.

(b) The impact of the Small Business Loans Limited restatements are as follows:

(i) Investments written off had previously been transferred to the amounts due to RGF, with there being a net nil impact on the profit and loss account. Such amounts were previously therefore not shown on the profit and loss account, which they should have been. Therefore those amounts are now presented on a gross basis, resulting in an additional £8,000 expense in the profit and loss account.

(ii) Amounts repayable to RGF, or set aside for future investment, is based on the net investment income. As noted above, all profits and losses above reasonable operating expenses are potentially repayable to RGF and movements on this balance should have been recognised in the profit and loss account. Therefore, the profit and loss account as at 31 March 2019 has been restated to include a £1,892 charge for amounts attributable to RGF. Amounts recognised in previous year profits and losses have also been reclassified as due to RGF, resulting in an increase to the amounts due to RGF in the balance sheet of £195,899 as at 31 March 2019, from £667,000 as previously reported to £862,899 as restated.

(iii) The directors of MSIF or of Small Business Loans Limited are not aware of any intention by RGF to reclaim the net amounts returned to the company that have not yet been reinvested. However, RGF retain the legal right to recall these funds at any time. Therefore, the amounts due to RGF has been reclassified as a current liability.

(c) In the prior year, the equity of the above named entities was included in the consolidated balance sheet, but the profit for the year, and the assets and liabilities of those entities was presented net as an entry to the investment reserve. In consolidating those entities, their gross balances should have been included in the consolidated accounts. Therefore, profit and loss accounts have been restated, resulting in an increase to profit for the year ended 31 March 2019 of £9,892. Net assets as at 31 March 2019 have increased by £905,677 (31 March 2018: £895,784). This increase relates in part to an adjustment of £709,777 for the correction of the historic gross assets and liabilities. The remaining increase in net assets of £195,900 represents the grossing up in respect of Small Business Loans Limited which, as noted above, is then adjusted separately as part of that restatement (see (b) above) and reported separately in this note for clarity. As part of this review, the directors have reclassified the Group investment loans of £5,931,789 from fixed assets to current assets.

(d) The impact of reclassifying the Other Provision held for the repayment of funds to one of the company's original investors is to decrease Other Provisions by £2,275,648 to £Nil as at 31 March 2019 and to increase Creditors: amounts falling due after more than one year by the same amount to £2,351,527.

The effect of the restatement on the Group's opening reserves as at 31 March 2018, is set out below:

	As previously reported	Restatements				As restated 31 March 2018
	31 March 2018	see (a)	See (b)	See (c)	See (d)	£
Group Profit and Loss Account	£ 8,443,147	£ 1,746,089	£ (186,007)	£ 895,784	£ -	£ 10,899,013
Group Non Controlling Interests	-	527,387	-	-	-	527,387
	8,443,147	2,273,476	(186,007)	895,784	-	11,426,400

Cash flow statement

The effect of the restatement on the Group's consolidated cash flow statement for the year ended 31 March 2019, is described below.

The net cash outflow from operating activities has increased from £122,734 as previously reported, to the restated amount of £440,725. The impact of this restatement on each line item within operating cash flows is shown in the table below:

	As previously reported - Group	Restatements	As restated
Reconciliation of operating loss to net cash (outflow)/inflow from operating activities			
Loss	218,811	(645,851)	(427,040)
Depreciation	7,972	-	7,972
Investments written off	1,333,809	85,800	1,419,609
Movement in fair value of financial assets	(362,888)	(10,836)	(373,724)
Movement in provision for investment losses	-	166,631	166,631
Movement in fair value of portfolio investments	-	(362,888)	(362,888)
Investment management expenses	51,023	-	51,023
Interest receivable and similar income	(165,270)	-	(165,270)
Interest payable and similar expenses	-	1,961	1,961
Taxation	-	-	-
Decrease/(increase) in debtors	(723,624)	722	(722,902)
Increase/(decrease) in creditors	(559,965)	448,421	(111,544)
Net cash inflow from operating activities (Note 21)	(200,132)	(316,040)	(516,172)
Interest received	77,398	1,610	79,008
Interest paid	-	(3,561)	(3,561)
Net cash outflow from operating activities	(122,734)	(317,991)	(440,725)

The net cash outflow from investing activities has decreased from £2,658,027 as previously reported to the restated amount of £1,939,327 due to the inclusion of investment repayments received by Merseyside Special Investment Venture Fund LP of £300,000 and Merseyside Special Investment Venture Fund No. 3 LP of £418,700.

Net cash from financing activities has reduced from being a net cash inflow of £21,764, to a restated net cash outflow of £21,236, due to the inclusion of repayment of partners capital accounts of £43,000 for the additional limited partnerships now included in the consolidation.

Parent Company

Amounts owed by group undertakings due in more than one year previously reported as £5,002,844 as at 31 March 2019 has been reduced to £Nil. Amounts owed by group undertakings due within one year has been increased by £5,002,844, from the previously reported amount of £148,396 to the restated amount of £5,151,240.

Merseyside Special Investment Fund Limited
Annual report and consolidated financial statements
Registered No. 02981031
31 March 2020

Notes to the financial statements
(continued)

3	Turnover	2020	2019
			As restated (See Note 2)
		£	£
	Fees and other income	<u>1,382,873</u>	<u>1,662,137</u>
4	Staff costs	2020	2019
		£	£
	Wages and salaries	851,355	877,793
	Social security costs	84,312	91,372
	Pension contributions	<u>22,020</u>	<u>19,143</u>
		<u>957,687</u>	<u>988,308</u>
	The monthly average number of employees during the year was:		
		2020	2019
	Finance and administration	7	7
	Fund management	<u>9</u>	<u>9</u>
		<u>16</u>	<u>16</u>
	The company operates one defined contribution pension scheme.		
5	Directors' remuneration	2020	2019
		£	£
	Aggregated emoluments	162,025	159,083
	Sums paid to third parties for directors' services	<u>16,994</u>	<u>15,992</u>
		<u>179,019</u>	<u>175,075</u>
	The amount in respect of sums paid to third parties relates to amounts payable to Liverpool Chamber of Commerce for the services of Neil Ashbridge and Liverpool LEP for the services of Mark Basnett.		
6	Interest receivable and similar income	2020	2019
		£	£
	Bank interest	82,241	17,108
	Interest on investment in portfolio fund	11,442	60,290
	Other investment income from portfolio fund	<u>62,124</u>	<u>87,872</u>
		<u>155,807</u>	<u>165,270</u>
7	Expenses and auditor's remuneration	2020	2019
		£	£
	Included in profit/(loss) are the following:		
	Depreciation of tangible fixed assets	19,681	7,972
	Auditor's remuneration for:		
	Fees payable to the company auditor for the audit of the parent company and consolidated financial statements	65,661	26,166
	Fees payable to the company's auditor and its associates for other services		
	- The audit of the company's subsidiaries pursuant to legislation	49,093	13,196
	- Other services pursuant to legislation	6,094	5,800
	- Tax services	30,300	30,740
	- Other	3,090	3,000
	Operating lease cost - land and buildings	44,113	44,113
	Operating lease cost - equipment	<u>2,264</u>	<u>2,264</u>
8 (a)	Taxation	2020	2019
	Current tax	£	£
	UK Corporation tax at 19% (2019: 19%)	-	-
	Adjustments in respect of prior periods	<u>11,307</u>	-
	Total current tax	<u>11,307</u>	-

The tax charge for the year is different to the standard rate of corporation tax in the UK 19% (19%: 2019) as explained below.

Notes to the financial statements
(continued)

8 (b) Factors affecting tax charge for year	2020	2019 As restated (See Note 2)
	£	£
Profit/(Loss) for the year	(175,753)	(427,040)
Total tax charge	(11,307)	-
Profit/(Loss) before tax	(187,060)	(427,040)
Profit/(Loss) multiplied by standard rate of Corporation tax in the UK of 19% (2019: 19%)	(35,541)	(81,138)
<i>Effects of:</i>		
Partnership profit/losses allocations	-	(6,923)
Adjust closing deferred tax to average rate of 19%	-	481,413
Adjust opening deferred tax to average rate of 19%	(489,104)	(496,337)
Other permanent differences	97,262	-
Group income	(13,978)	(16,696)
Expenses/income not chargeable for tax purposes	2,486	248,950
Deferred tax not recognised	484,763	(50,672)
Adjustment to tax charge in respect of prior periods	(11,307)	(74,080)
Adjustment to tax charge in respect of prior periods - deferred tax	(49,743)	-
Unrecognised losses utilised	(90,273)	-
Unwind of FRS 102 conversion adjustment	(4,877)	(4,877)
RGF transfer (non-taxable)/non-deductible	(5,577)	360
Partnership allocations received net income/(expense) / allocations transferred (net income)/expense	104,582	-
	(11,307)	-
8 (c) Deferred tax	2020	2019
	£	£
Unrecognised deferred tax asset at 1 April 2019	4,084,680	4,138,709
Movement in unrecognised deferred tax	426,277	(54,029)
Unrecognised deferred tax asset at 31 March 2020	4,510,957	4,084,680

The group has net of other timing differences, which are losses available to be carried forward for tax purposes of approximately £4.5 million (2019: £4.1 million) (company £0.4 million (2019: £0.3 million)) at 31 March 2020, which have not been recognised.

Factors that may future current and total tax charges

The deferred tax asset at 31 March 2020 has been calculated based on the latest substantively enacted rate of 19%. A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023, and this change was substantively enacted in May 2021 and will increase the company's future current tax charge accordingly.

9 Tangible fixed assets	Group Fixtures and fittings £	Company Fixtures and fittings £
Cost		
At 1 April 2019	229,602	68,661
Additions	2,503	-
At 31 March 2020	232,105	68,661
Accumulated depreciation		
At 1 April 2019	205,485	53,541
Depreciation	19,681	11,412
At 31 March 2020	225,166	64,953
Net book value at 31 March 2020	6,939	3,708
Net book value at 31 March 2019	24,117	15,120

Notes to the financial statements
(continued)

10 Fixed asset investments

10 (a) Group financial assets

	Equity £	Non Equity £	Loan & Equity Investments £
Cost or valuation			
At 1 April 2019 (as restated, see Note 2)	7,741,956	13,043,115	20,785,071
Amounts invested in year	-	3,326,316	3,326,316
Movement in fair value	2,145,000	-	2,145,000
Realisations/loan repayments	-	(3,353,002)	(3,353,002)
Written off in the year	(235,000)	(1,034,288)	(1,269,288)
Disposals in year	-	(86,000)	(86,000)
At 31 March 2020	9,651,956	11,896,141	21,548,097
Net amounts provided in the year			
At 1 April 2019 (as restated, see Note 2)	4,241,350	7,111,326	11,352,676
Movement in provision for the year	115,135	166,804	281,939
Realised in respect of disposals	-	(86,000)	(86,000)
At 31 March 2020	4,356,485	7,192,130	11,548,615
Net book value at 31 March 2020	5,295,471	4,704,011	9,999,482
Net book value at 31 March 2019 (as restated, see Note 2)	3,500,606	5,931,789	9,432,395

10 (b) Investments in Limited Partnerships made by other group companies

	Investments £	Capital grants recognised £
Cost		
At 1 April 2019	36,597,981	(36,597,981)
Movement in year	-	-
At 31 March 2020	36,597,981	(36,597,981)
Amounts written off/released		
At 1 April 2019	(36,597,981)	36,597,981
Movement in year	-	-
At 31 March 2020	(36,597,981)	36,597,981
Net book value at 31 March 2019 and 31 March 2020	-	-

Notes to the financial statements
(continued)

10 (c) Investments

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Investments in subsidiary companies	-	-	296,529	296,529
Investment in portfolio fund	10,242,293	10,449,948	10,242,293	10,449,948
Other investments	-	788	-	-
At 31 March 2020	10,242,293	10,450,736	10,538,822	10,746,477

As at the year-end the company directly holds the entire share capital of the following subsidiaries, all of which have a year-end of 31 March. All subsidiaries are registered in England.

Name of undertaking	Profit/(Loss)	Net Assets / (liabilities)	Principal activity
Companies:			
Merseyside Special Investment Venture Fund Limited	-	2	Investment Company
Merseyside Special Investment Venture Fund Two Limited	-	-	Investment Company
Merseyside Special Investment (Small Firms) Fund Two Limited	(788)	-	Investment Company
Merseyside Special Investment Mezzanine Fund Two Limited	(60)	16,178	Investment Company
Merseyside Small Loans for Business Investment Fund Limited	29,836	577,689	Investment Company
MSIF Seed Fund Limited	(60)	31	Investment Company
Merseyside Loan & Equity Fund LLP	2,282,915	6,608,861	Investment Company
Small Business Loans Limited	5,842	205,856	Investment Company
North West Transitional Loan Investment Fund LLP	112,582	560,868	Investment Company
North West Business Growth Fund LLP	-	(600,418)	Investment Company
Alliance Fund Managers Limited	(430,617)	958,768	Management Company
LVL Seed Fund Limited	-	1	2nd General Partner to Liverpool Seed Fund Limited Partnership
AFM Seed Fund Limited	-	28,001	First General Partner of the Liverpool Seed Fund Limited Partnership
AFM Merseyside Mezzanine Limited	-	21,001	Director for White Property Services Ltd

As at the year-end the group indirectly holds the entire share capital of the following subsidiaries, all of which have a year-end of 31 March. All subsidiaries are registered in England.

Name of undertaking	Profit/(Loss)	Net Assets / (liabilities)	Principal activity
Companies:			
AFM Merseyside Ventures Limited	-	87,702	General Partner of the Merseyside Special Investment Venture Fund No. 3 Limited Partnership. The Company also acts as Director for White Property Services Limited
AFM Small Firms Fund Limited	-	446,764	General Partner of North West Business Growth Fund LP
AFM R101 Ventures Limited	(9,144)	(29,190)	General Partner of the Merseyside Special Investment Venture Fund Limited Partnership. It is a Limited Partner in NPIF NW (Microfinance) Limited Partnership
Alliance Fund Managers Nominees Ltd	-	1	The company acts as nominee shareholder for equity investments made by other group entities
BCE Fund Managers (Merseyside) Ltd	-	354	Designated Member of AFM NWF General Partner LLP and AFM NPIF General Partner LLP
AFM Business Growth Fund Limited	160	1	Limited Partner of the North West Business Growth Fund LP
AFM NPIF General Partner LLP	-	2	Second General Partner of NW NPIF (Microfinance) LP
AFM NWF General Partner LLP	-	2	Second General Partner of NWF (Micro Loans) LP

The registered office for all the above subsidiaries is 2nd Floor, Exchange Court, 1 Dale Street, Liverpool, L2 2PP.

In addition Merseyside Special Investment Fund Limited is the sole guarantor of Liverpool Ventures Limited (a company limited by guarantee).

The directors believe that the carrying value of the investments is supported by their underlying net assets.

11 Debtors

	Group		Company	
	2020	2019	2020	2019
	£	As restated (See Note 2) £	£	As restated (See Note 2) £
Amounts falling due within one year:				
Trade debtors	45,464	94,837	316	93,737
Other debtors	3,782	806,686	-	708,803
Amounts owed by group undertakings	-	-	3,415,992	5,151,240
Other taxation and social security	22,200	33,471	22,200	-
Prepayments	63,788	87,801	24,768	44,366
Accrued income	35,711	73,140	12,370	-
	170,945	1,095,935	3,475,646	5,998,146

The amounts owed by group undertakings are unsecured and repayable on demand.

Notes to the financial statements
(continued)

12 Cash and cash equivalents

	Group		Company	
	2020	2019 As restated (See Note 2)	2020	2019
	£	£	£	£
Cash at bank and in hand	18,488,621	18,089,293	13,611,473	13,265,841
Cash and cash equivalents	<u>18,488,621</u>	<u>18,089,293</u>	<u>13,611,473</u>	<u>13,265,841</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2020	2019 As restated (See Note 2)	2020	2019
	£	£	£	£
Trade creditors	43,493	126,190	12,034	39,527
Amounts owed to group undertakings	-	-	358,450	86,247
Taxation and social security	59,001	147,747	2,456	62,866
Other creditors	279,159	296,750	271,884	99,462
Other creditors - investment reserve	24,980,478	24,678,458	18,329,835	20,406,875
Amounts attributable to RGF	833,545	862,899	-	-
Accruals and deferred income	350,524	163,858	142,340	56,798
Bank loans	1,951	25,520	-	-
Amounts owed to ERDF	750,000	-	750,000	-
	<u>27,298,151</u>	<u>26,301,422</u>	<u>19,866,999</u>	<u>20,751,775</u>

The amounts owed to group undertakings are unsecured, repayable on demand.

The investment reserve represents amounts that the group intends to invest in enterprises in the future, or may be required to repay to the agencies that originally provided the funding.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2020	2019 As restated (See Note 2)	2020	2019
	£	£	£	£
Bank loans repayable within five years	169,000	75,879	-	-
Amounts owed to ERDF	1,525,648	2,275,648	1,525,648	2,275,648
	<u>1,694,648</u>	<u>2,351,527</u>	<u>1,525,648</u>	<u>2,275,648</u>

At 31 March 2020 the bank loans represents borrowings under drawdown loan facilities of £169,000 entered into on 10 April 2018 for a period of 4 years. Interest is charged at the Bank of England rate plus 4%.

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the group's and parent company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2020	2019
	£	£
Bank loans		
Creditors falling due within one year	1,951	25,520
Creditors falling due after more than one year	<u>169,000</u>	<u>75,879</u>

Terms and debt repayment schedule

Group	Currency	Nominal Interest Rate	Year of maturity	2020	2019
				£	£
Unity year 3	GBP	4.0%	2019	1,951	25,520
Unity year 4	GBP	4.0%	2023	<u>169,000</u>	<u>75,879</u>
				<u>170,951</u>	<u>101,399</u>

**Notes to the financial statements
(continued)**

16 Provisions for liabilities

Deferred tax assets have not been carried forward, as recovery in future years is not considered to be probable. The amount of deferred tax provided and not recognised comprises:

Group	Deferred tax provided		Deferred tax not recognised	
	2020	2019	2020	2019
	£	£	£	£
At start of year	-	-	(4,084,680)	(4,138,709)
Excess of depreciation over tax allowance	-	-	1,170	1,101
Other timing differences	-	-	(8,504)	(552)
Profit and loss account movement in year	-	-	(418,944)	53,480
At end of year	-	-	(4,510,958)	(4,084,680)

Company	Deferred Tax Provided		Deferred tax not recognised	
	2020	2019	2020	2019
	£	£	£	£
At start of year	-	-	347,554	447,643
Excess of depreciation over tax allowance	-	-	(1,568)	(103)
Losses utilised	-	-	11,223	(140,957)
Prior year adjustment	-	-	-	40,971
At end of year	-	-	357,209	347,554

17 Financial instruments

The carrying amount of the financial assets include:

	Group		Company	
	2020	2019 As restated (See Note 2)	2020	2019 As restated (See Note 2)
	£	£	£	£
Assets measured at fair value through profit or loss	15,537,764	13,951,342	-	-
Assets measured at cost less impairment	23,370,516	25,141,134	27,629,649	30,016,584
Liabilities measured at amortised cost	(28,992,799)	(28,652,949)	(19,866,999)	(20,751,775)
Provisions measured at amortised cost	-	-	-	-
	<u>9,915,481</u>	<u>10,439,527</u>	<u>7,762,650</u>	<u>9,264,809</u>

18 Called up share capital

The company does not have share capital and is limited by guarantee. The liability of the members is limited to a minimum of £1 and a maximum of £100 each. At 31 March 2020 the company had 3 members (2019: 3).

19 Operating lease commitments

At 31 March 2020 the Group had total commitments under non-cancellable operating leases as set out below:

	Land and buildings	Office equipment	Group	Group
	2020	2020	2020	2019
	£	£	£	£
Payments due:				
Within one year	37,535	1,947	39,482	45,659
Between two and five years	-	-	-	39,482
	<u>37,535</u>	<u>1,947</u>	<u>39,482</u>	<u>85,141</u>

At 31 March 2020 the company had total commitments under non-cancellable operating leases as set out below:

	Office equipment	Company	Company
	2020	2020	2019
	£	£	£
Payments due:			
Within one year	1,947	1,947	2,225
Between two and five years	-	-	1,947
	<u>1,947</u>	<u>1,947</u>	<u>4,172</u>

20 Contingent liabilities

One of the group entities (Merseyside Special Investment Venture Fund Two Limited) has provided a guarantee to Mersey Pension Fund (MPF) in respect of its capital account with Merseyside Special Investment Venture Fund No.3 Limited Partnership. Merseyside Special Investment Venture Fund Two Limited guarantees to pay an amount equal to 50% of the shortfall between the total amounts received by MPF and their initial loan of £2,000,000.

At 31 March 2020, £1,905,362 (2019: £1,905,362) had been repaid to MPF, leaving the partnership capital account at £94,638 (2019: £94,638). This means that the maximum potential liability to the group is £47,319 (2019: £47,319).

Notes to the financial statements
(continued)

21 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2020 £	2019 £
		As restated (See Note 2)
Loss	(175,753)	(427,040)
Depreciation	19,681	7,972
Investments written off	1,269,288	1,419,609
Movement in fair value of financial assets	(2,145,000)	(373,724)
Movement in provision for investment losses	281,939	166,631
Movement in fair value of portfolio investments	227,863	(362,888)
Investment management expenses	54,147	51,023
Interest receivable and similar income	(155,807)	(165,270)
Interest payable and similar expenses	7,110	1,961
Taxation	(11,307)	-
	(627,839)	318,274
Decrease/(increase) in debtors	924,990	(722,902)
Increase/(decrease) in creditors	(77,996)	(111,544)
Net cash inflow from operating activities	<u>219,155</u>	<u>(516,172)</u>

22 Capital commitments

The group had capital commitments of £597,000 (2019: £390,000).

23 Related party transactions

The emoluments of certain directors were paid to third parties (see note 4). An amount of £8,660 (2019: £7,992) was paid to Liverpool Chamber of Commerce and £8,000 (2019: £8,000) was paid to the Liverpool LEP in respect of directors' services in the year. In addition, membership subscriptions amounting to £432 (2019: £396) and £6,300 (2019: £6,300) were paid to Liverpool Chamber of Commerce and the Liverpool LEP, respectively. At the year end, £1,200 (2019: £Nil) was due to Liverpool Chamber of Commerce and £Nil (2019: £Nil) to the Liverpool LEP.

North West Business Growth Fund LP ("NWBGF") was considered to be a related party, as the company was the ultimate parent company of NWBGF's General Partner, the Limited Partner and the Founder Limited Partner. That investment was written off in the year. During the year, amounts totalling £Nil (2019: £708,803) were advanced to NWBGF for investment and funding.

The group has taken advantage of the exemption available under Section 33 of FRS 102 to not disclose transactions with other wholly owned companies in the group headed by Merseyside Special Investment Fund Limited.