

Merseyside Special Investment Fund

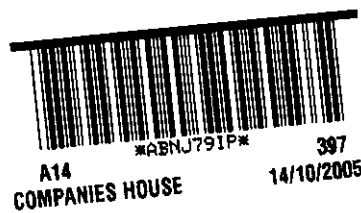
Merseyside Special Investment Fund Limited

(A Company limited by guarantee and not having any share capital)

Annual Report and Financial Statements

for the year ended 31 March 2005

Registered Number: 2981031



Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2005

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Merseyside Special Investment Fund Limited

Directors and Company information

Directors

Mr M Davis - resigned 31 July 2004
Lord Alton of Liverpool
Mr S Edwards - resigned 30 September 2004
Mr N Kemsley
Mrs A Redmond - resigned 31 October 2004
Mr R Swainson
Mr J E Young
Professor M Hulme – appointed 1st December 2004.
Mr Ian Meadows – appointed 18th January 2005

Secretary

DWF Secretarial Services Limited

Registered Office

5th Floor
Cunard Building
Pier Head
Liverpool
L3 1DS

Auditors

PricewaterhouseCoopers LLP
8 Princes Parade
St Nicholas Place
Liverpool
L3 1QJ

Principal bankers

Barclays Bank plc
North West Larger Business - Liverpool
15/33 Moorfields
Liverpool
L69 2RU

Solicitors

Davies Wallis Foyster
5 Castle Street
Liverpool
L2 4XE

Merseyside Special Investment Fund Limited Chairman's Statement

For the year ended 31 March 2005

As newly appointed Chairman, I have the pleasure of joining the MSIF Group at a time of exciting progress.

It is clear to me already, that Merseyside Special Investment Fund has established an impressive reputation and is widely recognised as making a genuine sustainable impact on the region's economy. I am very much looking forward to overseeing its next phase of development between now and 2008.

The past twelve months has seen the successful creation of another MSIF fund - the new £27m Liverpool Seed Fund- and the establishment of Liverpool Ventures, recently incorporated as a subsidiary of MSIF.

Already deal flow and work in progress reports are demonstrating a great demand for proof of concept, commercialisation finance and first round venture capital for knowledge-based businesses. The role of the newly established Liverpool Ventures means that these businesses will also benefit from top-level specialist advice and practical support during the application process and additional services designed to enable them to progress successfully throughout the time of investment.

MSIF's in-house Fund Management company - AFM has again performed well over the last year under the leadership of Mark Fuller and the team has worked hard to deliver its outputs. From MSIF's new funds secured in 2002, AFM has made 267 investments totalling £19.6m. This has brought in £62m private sector leverage and created 988 new jobs, preserving a further 1054.

The Small Firms Fund has made a total of 236 investments totalling £7m. In the Venture Fund, a total of 11 transactions have been successfully completed and the fund has invested a total of £6.7million. The Mezzanine Fund has invested £5.9 million in a total of 20 businesses, a number of these investments have been made in conjunction with the Venture Fund.

Between now and the end of 2008 it will be a stiff challenge to meet the target of successfully investing £106.7m in around 900 businesses, and making a commercial return on this investment.

MSIF Partners continues to operate highly effectively under the direction of Roy Swainson. Regular communication with these key organisations has contributed greatly to relationship building and raising awareness of MSIF.

Finally I would like to acknowledge and thank all those operating within the MSIF Group for their hard work, dedication and commitment over the last year.



**Professor Michael Hulme
Chairman
Merseyside Special Investment Fund**

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2005

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2005.

Merseyside Special Investment Fund Limited is a company limited by guarantee and was established in 1996 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.

Principal activities

The Group's principal activity is to invest 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 is supported and part-financed in this project by European Regional Development Funding via the European Community's Objective 1 Programme administered by the Government Office for the North West.

Business review

The Fund has now completed its ninth year. Work on the new funds has progressed well.

Financial results

The profit for the year of £1,459,591 (profit 2004: £241,860) has been transferred to reserves.

Directors

The directors during the year ended 31 March 2005, were as follows:

Mr M Davis - resigned 31 July 2004

Lord Alton of Liverpool

Mr S Edwards - resigned 30 September 2004

Mr N Kemsley

Mrs A Redmond - resigned 31 October 2004

Mr R Swainson

Mr J E Young

Professor M Hulme - appointed 1st December 2004

Mr Ian Meadows – appointed 18th January 2005

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2005 (continued)

No director of the Company has any interest in the company within the meaning of the Companies Act 1985.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the Group and of the profit and loss of the Group for that period. In preparing those financial statements, the directors are required to:

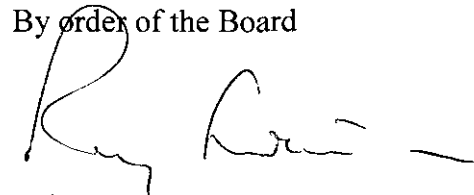
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the Annual General Meeting.

By order of the Board



R Swainson

Director

22 July 2005

Merseyside Special Investment Fund Limited

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

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, cash flow statement and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements, in accordance with applicable United Kingdom accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the Report of the directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement and the Report of the Directors.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2005 and of the surplus and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool
22 July 2005

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2005

	Notes	2005 £	2004 £
Income			
Grants & contributions	2	295,043	452,348
Fees and other income		2,692,428	3,346,358
Investment income	3	110,493	368,895
		<u>3,097,964</u>	<u>4,167,601</u>
Administrative and investment expenses		(3,166,846)	(4,821,239)
Amounts written off investments	10 (a)	(22,200)	(116,960)
Movement in provision for impairment of fixed asset investments	10 (a)	<u>176,597</u>	<u>162,828</u>
Operating surplus/(deficit) before interest		85,515	(607,770)
Interest receivable on bank deposits		1,356,723	1,039,059
Interest payable on bank loans and overdrafts		<u>(62,552)</u>	<u>(108,567)</u>
Surplus on ordinary activities before taxation	5	1,379,686	322,722
Taxation on ordinary activities	5(a)	79,905	(80,862)
Retained surplus for the financial year	17	<u>1,459,591</u>	<u>241,860</u>

All operations are continuing.

There is no difference between the surplus on the ordinary activities before taxation and the retained surplus for the year stated above and their historical cost equivalents.

There were no recognised gains and losses other than those shown above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 11 to 21 form an integral part of these financial statements.

Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2005

	Notes	Group 2005 £	2004 £	Company 2005 £	2004 £
Fixed assets					
Intangible assets	8	68,139	113,565	-	-
Tangible assets	9	71,182	65,642	-	-
Investments- loans	10 (a)	263,461	885,478	19	18
Investments- other	10 (c)	122,700	5,100	117,500	-
		<u>525,482</u>	<u>1,069,785</u>	<u>117,519</u>	<u>18</u>
Current assets					
Debtors	11	932,386	1,416,308	991,629	1,229,751
Cash at bank and in hand		45,677,814	28,076,596	1,143,568	318,773
		<u>46,610,200</u>	<u>29,492,904</u>	<u>2,135,197</u>	<u>1,548,524</u>
Creditors: amounts falling due within one year	12	(415,179)	(519,008)	(500,912)	(569,791)
Net current assets		<u>46,195,021</u>	<u>28,973,896</u>	<u>1,634,285</u>	<u>978,733</u>
Total assets less current liabilities		<u>46,720,503</u>	<u>30,043,681</u>	<u>1,751,804</u>	<u>978,751</u>
Creditors: amounts falling due after more than one year	13	(926,500)	(1,580,000)	-	-
Provision for liabilities and charges	14	(138,336)	(218,241)	-	-
Accruals and deferred income	15	(42,631,727)	(26,681,091)	-	-
Net assets		<u>3,023,940</u>	<u>1,564,349</u>	<u>1,751,804</u>	<u>978,751</u>
Reserves					
Accumulated reserves	17	<u>3,023,940</u>	<u>1,564,349</u>	<u>1,751,804</u>	<u>978,751</u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 22 July 2005 and were signed on its behalf by



M Hulme
Director



N Kemsley
Director

Merseyside Special Investment Fund Limited

Consolidated cash flow statement for the year ended 31 March 2005

	Notes	2005 £	2004 £
Net cash outflow from continuing operating activities	21	(3,672,700)	(4,560,115)
Returns on investments and servicing of finance			
Interest received		1,356,723	1,039,059
Interest paid		(62,552)	(108,567)
		<u>1,294,171</u>	<u>930,492</u>
Capital expenditure and financial investments			
Loan investments made		-	-
Acquisitions and disposals	22	(117,600)	1,750
Fixed assets acquired		(25,567)	(7,056)
Fixed assets disposals		-	1,021
Loan repayments received		<u>776,414</u>	<u>1,012,000</u>
		<u>633,247</u>	<u>1,007,715</u>
Net cash (outflow)/ inflow before financing		<u>(1,745,282)</u>	<u>(2,621,908)</u>
ERDF Cash		20,000,000	
Financing			
Decrease in loans	24	<u>(653,500)</u>	<u>(1,647,500)</u>
Increase/(decrease) in cash in the year		<u><u>17,601,218</u></u>	<u><u>(4,269,408)</u></u>

All cash held by the investment companies identified in note 10(c), amounting to £42,631,727 is restricted from being transferred to any other part of the Group.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

The financial statements have been prepared under the historical cost convention. In accordance with paragraph 3(3) of Schedule 4 Companies Act 1985 the directors have adapted the arrangement of certain headings in the income and expenditure account to reflect more effectively the nature of the group's activities. The Company has utilised the exemption afforded by section 230 of the Companies Act 1985 not to present its own income and expenditure account.

Grants, contributions and accumulated surplus

The Holding Company has raised investment funds for small and medium sized enterprises in the Objective 1 Area of Merseyside and created an in-house fund manager to invest those funds.

The surplus can only ultimately be used for further investment in Merseyside by Merseyside Special Investment Fund successor funds.

a) *Revenue*

In the Holding Company, Mezzanine Fund 1 and Small Firms Fund 1, European Regional Development Fund (ERDF) grant is provided to meet agreed percentages of management and certain finance costs and capital losses. In the Venture Funds, Small Firms Fund Number 2, and all subsequent new funds, ERDF is matched proportionately with funds from investors to provide the capital for investment and management costs.

The above ERDF, interest rate rebate grant and partners' contributions to the Small Firms Fund are credited to the Income and Expenditure account.

b) *Capital*

Capital grants received in advance of investment are carried forward on the balance sheet as "grants received in advance".

Capital grants and contributions relating to investments in Limited Partnerships are recognised at the point at which investments are made and are carried on the balance sheet as deferred income. This is released to the income and expenditure account to match any provision for impairment or other losses in respect of the investments to which the grants relate.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

1 Accounting policies (continued)

Fees and other income

Fees and other income represent amounts receivable for investment management services provided in the UK, excluding Value Added Tax.

Basis of consolidation

The consolidated income and expenditure account and balance sheet include the financial statements of the Holding Company and its subsidiary undertakings.

Fixed asset investments

Investments are stated at cost in the balance sheet, unless there has been diminution in value, in which case provision for impairment is made.

Investments in limited partnerships are stated at cost less provision for impairment (see note 11(b)). In view of the high-risk nature of the underlying investments of the limited partnerships in which the company's investments are made, and the preferred status on final distribution of partnership assets, an immediate and full provision for impairment of investment capital is made.

The limited partnership agreements provide for the appropriation of surpluses and deficits to the partners on the ultimate realisation of the investments. Deficits will be borne by the subsidiaries only to the extent of their investment in, and the loans provided to, the limited partnerships.

Any surplus over written down value arising on the final realisation of the investment in the limited partnerships is taken to income when received and transferred to a reserve for future investment.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets less estimated residual values on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	5 years
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Goodwill

On the acquisition of a business, fair values are ascribed to the net assets acquired. Goodwill arises when the fair value of the consideration given for the business exceeds such net assets. Goodwill arising on the acquisition of a business is capitalised as an asset and amortised over its useful economic life, considered to be five years.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

1 Accounting policies (continued)

Operating leases

Costs in respect of operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

Investment income

Investment income represents loan interest receivable on fixed asset investments and profits arising on the redemption of equity investments.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

2 Income

	2005 £	2004 £
Grants and contributions		
- ERDF	189,979	267,769
- Other contributions	105,064	184,579
	<u>295,043</u>	<u>452,348</u>

Income arises in the United Kingdom.

Included within grants and contributions is £Nil (2004: £Nil) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

3 Investment income

	2005 £	2004 £
Profit on redemption of investments	11,103	200,000
Income from loan investments	99,390	168,895
	<u>110,493</u>	<u>368,895</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

4 Surplus on ordinary activities before taxation

	2005 £	2004 £
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Amounts written off fixed asset investments (note 11)	22,200	116,960
Movement in provision for impairment of fixed asset investments (note 11)	(176,597)	(162,828)
Amounts provided against investments in Limited Partnerships (note 11)	4,049,364	3,365,000
Release of capital grants (note 11)	(4,049,364)	(3,365,000)
Amortisation of intangible fixed assets	45,426	45,426
Depreciation of tangible fixed assets	20,027	24,066
Auditors' remuneration for:		
Audit fees (Company £13,250, 2004: £45,500)	33,506	49,013
Non audit services	58,550	59,070
Operating lease costs-land and buildings	156,810	170,405

Fees for non-audit services relate mainly to the provision of taxation services.

5(a) Taxation – ordinary activities

	2005 £	2004 £
UK Corporation tax at 30% (2004: 30%)	-	-
Deferred tax	(79,905)	80,862
	<u>(79,905)</u>	<u>80,862</u>

5(b) Factors affecting tax charge for period

	2005 £	2004 £
Surplus on ordinary activities before tax	1,379,686	322,722
Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2004:30%)	413,906	98,816
Effects of:		
Expenses not deductible for tax purposes	22,775	190,169
Allocation from partnerships	(675,218)	(547,613)
Depreciation in advance of capital allowances	(1,071)	(1,420)
Unrelieved taxation losses carried forward	949,174	652,408
Income accrued but taxable in later accounting periods	(584,491)	(343,116)
Decrease in short term timing differences	(125,077)	(47,244)
Adjustments to tax charge in respect of previous periods	2	-
Current tax charge for the period (note 6(a))	<u>-</u>	<u>-</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

5 (c) Deferred taxation

	2005 £	2004 £
Origination and reversal of timing differences	235,540	65,725
Adjustments in respect of previous periods	(315,545)	15,137
	<u>(79,905)</u>	<u>80,862</u>

The Group has generated losses for taxation purposes. Accordingly no provision has been made for corporation tax. The Group (including all partners) has losses available to be carried forward for tax purposes of approximately £14.9 million (2004: £9.8 million) (company £4.3 million (2004: £3.7 million)) at 31 March 2005, which have yet to be agreed with the Inland Revenue.

6 Directors' emoluments

	2005 £	2004 £
Aggregate emoluments	134,725	127,344
Sums paid to third parties for directors' services	22,834	46,773
	<u>157,559</u>	<u>174,117</u>

The amount in respect of sums paid to third parties relates to amounts payable to PLA Ltd, Hurlstone Management Limited, and Liverpool Chamber of Commerce and Teleconomy Consultancy for the provision of services by Mrs Redmond, Mr Davis, Messrs Edwards and Meadows and Mr Hulme respectively.

7 Staff costs

	2005 £	2004 £
Wages & Salaries	1,544,802	1,595,544
Social Security Costs	144,392	180,770
Other Pension Costs	41,475	37,718
	<u>1,730,669</u>	<u>1,814,032</u>

The average number of employees during the year was 38 (2004: 38).

The company operates two defined contribution pension schemes.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

8 Intangible assets (Group)

Goodwill of £227,130 arose out of the purchase of Alliance Fund Managers Limited.

	£
Cost	
At 1 April 2004 and 31 March 2005	<u>227,130</u>
Amortisation	
At 1 April 2004	113,565
Charge for the year	<u>45,426</u>
At 31 March 2005	158,991
Net book amount at 31 March 2005	<u>68,139</u>
 Net book amount at 31 March 2004	 <u>113,565</u>

	Office Equipment
Cost or valuation	£
At 1 April 2004	119,200
Additions during the year	25,567
Disposals during the year	<u>-</u>
At 31 March 2005	<u>144,767</u>
Accumulated depreciation	
At 1 April 2004	53,558
Provided during year	20,027
Disposals during the year	<u>-</u>
At 31 March 2005	<u>73,585</u>
 Net book value at 31 March 2005	 <u>71,182</u>
 Net book value at 31 March 2004	 <u>65,642</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

10 Fixed asset investments

Group

(a) Loan investments made by Merseyside Special Investment Mezzanine Fund Limited		Loan investments
		£
Cost		
At 1 April 2004		4,078,133
Additions in year		
Loan repayments		(776,414)
At 31 March 2005		3,301,719
Amounts written off		
At 1 April 2004		2,590,930
Movement in year		22,200
At 31 March 2005		2,613,130
Amounts provided for		
At 1 April 2004		601,725
Movement in year		(176,597)
At 31 March 2005		425,128
Net book value		
At 31 March 2005		263,461
At 31 March 2004		885,478

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

	Investments	Capital grants recognised
	£	£
Cost		
Balance brought forward	17,820,009	(17,820,009)
Movement during year	4,049,364	(4,049,364)
Balance carried forward	<u>21,869,373</u>	<u>(21,869,373)</u>
Amounts written off/released		
Balance brought forward	(17,820,009)	17,820,009
Movement during year	(4,049,364)	4,049,364
Balance carried forward	<u>(21,869,373)</u>	<u>21,869,373</u>
Net book value at 31 March 2005	<u>-</u>	<u>-</u>
Net book value at 31 March 2004	<u>-</u>	<u>-</u>

Investments comprise partnership capital and loans made to the partnerships. Loans only become repayable on the final distribution of partnership assets.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

(c) Investments - Other

	£
At 1 April 2004	5,100
Additions	<u>117,600</u>
At 31 March 2005	<u>122,700</u>

Company

	2005	2004
	£	£
At 1 April 2004	18	18
Additions	<u>1</u>	<u>-</u>
Interests in group undertakings at cost	<u>19</u>	<u>18</u>

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

Name of undertaking	Principal activity
Companies:	
Merseyside Special Investment Venture Fund Limited	Investment Company
Merseyside Special Investment Venture Fund Two Limited	Investment Company
Merseyside Special Investment (Small Firms) Fund Limited	Investment Company
Merseyside Special Investment (Small Firms) Fund Two Limited	Investment Company
Merseyside Special Investment Mezzanine Fund Limited	Investment Company
Merseyside Special Investment Mezzanine Fund Two Limited	Investment Company
MSIF Interest Rebates Limited	Service Company
MSIF Money with Management Limited	Service Company
MSIF IPSS Limited	Service Company
MSIF Seed Fund Limited	Investment Company

Merseyside Special Investment Fund Limited is the sole guarantor of Alliance Fund Managers (Holdings) Limited. Alliance Fund Managers (Holdings) Limited holds the entire share capital of Alliance Fund Managers Limited. Alliance Fund Managers Limited is considered to be a principal subsidiary of Merseyside Special Investment Fund Limited.

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

11 Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	853,510	1,330,627	833,937	702,388
Amounts owed by group undertakings	-	-	157,692	527,363
Other debtors	-	-	-	-
Prepayments and accrued income	<u>78,876</u>	<u>85,681</u>	<u>-</u>	<u>-</u>
	<u>932,386</u>	<u>1,416,308</u>	<u>991,629</u>	<u>1,229,751</u>

The amounts owed by group undertakings are unsecured, repayable on demand and at a nil rate of interest, with the exception of amounts totalling £31,809 owed by Liverpool Ventures Ltd which have an interest rate of base rate plus 2%(2004 nil).

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

12 Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Amounts falling due within one year:				
Trade creditors	76,102	202,081	-	31,843
Amounts owed to group undertakings	-	-	362,440	397,333
Other taxation and social security	142,153	42,291	77,859	(13,017)
Accruals	196,924	274,636	60,613	153,632
	<u>415,179</u>	<u>519,008</u>	<u>500,912</u>	<u>569,791</u>

The amounts owed to group undertakings are unsecured, repayable on demand and at a nil rate of interest.

13 Creditors: amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Loans repayable within five years (Liverpool Ventures Limited)	100,000	-	-	-
Bank loans repayable within five years (Merseyside Special Investment Mezzanine Fund Limited)	826,500	1,580,000	-	-

The loans to Liverpool Ventures Limited are unsecured, have a nil rate of interest and are repayable on 31 December 2009.

The bank loans are repayable in July 2006.

At 31 March 2005 bank loans consist of borrowings under multiple drawdown loan facilities of £11 million under facility agreements entered into on 17 July, 26 July 1996 and 11 May 2001 for a period of ten years. The loans are secured by a fixed charge over loan investments made by subsidiary undertakings and covered by a guarantee executed by the European Investment Fund in favour of Barclays Bank plc. Interest is charged at the London Inter-Bank Offer Rate plus 0.9% and associated costs.

14 Deferred Taxation

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:

	Deferred Tax Provided		Deferred Tax Not Recognised	
	2005	2004	2005	2004
	£	£	£	£
At start of period	218,241	137,379	(2,521,424)	-
Excess of depreciation over tax allowance	-	-	-	(4,956)
Other timing differences	235,540	93,020	-	571,896
Losses	(315,445)	(12,158)	-	(3,088,364)
At end of period	<u>138,336</u>	<u>218,241</u>	<u>(2,521,424)</u>	<u>(2,521,424)</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

15 Accruals and deferred income

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Capital grants received in advance	<u>42,631,727</u>	<u>26,681,091</u>	<u>-</u>	<u>-</u>

16 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 2005 the company had three members (2004 : 3).

17 Accumulated reserve

	Group	Company
	£	£
Income and expenditure account		
At 1 April 2004	1,564,348	978,751
Surplus for the year	<u>1,459,591</u>	<u>773,053</u>
At 31 March 2005	<u>3,023,939</u>	<u>1,751,804</u>

18 Capital commitments

The Group had capital commitments of £Nil at the year end (2004: £Nil).

19 Financial commitments

At 31 March 2005, the Group had annual commitments under non-cancellable operating leases as set out below:

	2005	2004
	Land and Buildings	Land and buildings
	£	£
Expiring:		
Between two and five years	<u>156,810</u>	<u>156,810</u>

20 Contingent liabilities

Merseyside Special Investment Limited has given an undertaking to Liverpool Ventures Limited to provide support to enable its liabilities to be met as they fall due. It has also given an undertaking that its future income will be guaranteed to an agreed level. The financial effect of these guarantees are uncertain and cannot be quantified.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2005 (continued)

21 Reconciliation of operating deficit to net cash outflow from operating activities

	2005 £	2004 £
Operating surplus/(deficit)	85,515	(607,770)
Depreciation	20,027	24,066
Goodwill amortisation	45,426	45,426
Amounts (written off)/written back to investments	(154,397)	(45,868)
Decrease/(Increase) in debtors	483,922	(314,435)
Decrease in creditors	(103,829)	(296,534)
Decrease in capital grants received in advance	(4,049,364)	(3,365,000)
Net cash outflow from operating activities	(3,672,700)	(4,560,115)

22 Acquisitions and Disposals

	2005 £	2004 £
Acquisitions	(117,600)	-
Redemption of partnership interests	-	1,750
Net cash outflow for acquisitions and disposals	(117,600)	1,750

23 Reconciliation of net cash flow to movement in net debt

	2005 £	2004 £
Increase/(Decrease) in cash in the year	17,601,218	(4,269,408)
Cash inflow from change in debt	653,500	1,647,500
Change in net debt resulting from cash flows	18,254,718	(2,621,908)
Net debt at 1 April 2004	26,496,596	29,118,504
Net debt at 31 March 2005	44,751,314	26,496,596

24 Analysis of net debt

	At 1 April 2004 £	Cashflow £	At 31 March 2005 £
Net Cash			
Cash at bank and in hand	28,076,596	17,601,218	45,677,814
Debt due after 1 year	(1,580,000)	653,500	(926,500)
	26,496,596	18,354,718	44,751,314

Merseyside Special Investment Fund Limited**Notes to the financial statements
for the year ended 31 March 2005 (continued)****25 Related party transactions**

The emoluments of certain directors were paid to third parties (see note 6).

The company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions with other Group companies on the grounds that these are eliminated on consolidation.

Transactions with limited partnerships of the group are not considered to be related party transactions, as Merseyside Special Investment Fund does not gain any economic benefits from these vehicles, as any return on these investments must be reinvested.