



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 2002

Registered Number: 2981031



Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2002

	Pages
Directors and Company information	1
Chairman's statement	2
Report of the directors	4
Independent auditors' report	6
Consolidated income and expenditure account	8
Balance sheets	9
Consolidated cash flow statement	10
Notes to the financial statements	11

Merseyside Special Investment Fund Limited

Directors and Company information

Mr M Davis
Lord Alton of Liverpool
Mr S Edwards – appointed 20 December 2002
Mr N Kemsley
Mrs A Redmond
Mr H Rosser
Mr A Strachan – appointed 1 November 2002
Mr R Swainson

Secretary

DWF Secretarial Services Limited

Registered Office

5th Floor
Cunard Building
Pier Head
Liverpool
L3 1DS

Auditors

PricewaterhouseCoopers
Chartered Accountants
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 2002

In December 2001 Merseyside Special Investment Fund (MSIF) received the commitment of the European Commission, the Merseyside Pension Fund, Barclays Bank, the European Investment Fund and subsequently a number of local 'special partners', to create additional funds of £80m. These were follow-on funds to the existing £33m equity and loan funds, the full investment of which was completed during 2002.

Dealing with the investment of these follow-on funds has necessitated many significant changes in the structure and management of MSIF. This includes the creation of an in-house fund management company – Alliance Fund Managers (AFM) - to take over from the three external contracted fund managers.

Results and performance

The additional funds, which allow participation in larger deals, and the creation of AFM, made it necessary to review the accounting policies for the MSIF Group. The details of the new policies, which make the accounts both clearer and more conservative, are set out on page 12.

By 31 March 2002 the MSIF funds had invested £33m in 588 businesses.

The first Venture Fund became fully invested having backed 33 businesses. AFM has taken on the management of a high-risk portfolio of start up and early stage investments. As might be expected with such a high-risk portfolio, losses have been incurred. However, the experience of this first fund has contributed to getting the investment of the follow-on equity fund of £40m off to an encouraging start.

The first Mezzanine Fund also became fully invested with 68 investments and the creation/saving of 2,144 jobs. This fund met all its original performance targets with losses consistent with expectations. The second Mezzanine fund (£20m) has also started on target.

The first Small Firms Loan Fund (SFF) has been a great success and greatly exceeded its original performance targets having lent to 487 businesses and created/saved 3,592 jobs with losses remaining within expectations. The second SFF (£20m) has been slow to start but, with increasingly active marketing by fund managers and the involvement of intermediaries, deal flow is increasing.

Alliance Fund Managers

AFM, which is regulated under the Financial Services Act, was created in late 2001 to manage both the existing and new funds. The Directors of MSIF took this step given the substantial increase in the size of the fund, the need to ensure a close operational relationship and a consistent approach to serving the Merseyside market.

AFM has its own Board, which was very pleased to recruit Mark Fuller, an experienced investment manager in the North West, as its Managing Director. Both Neil Kemsley (AFM Chairman) and Roy Swainson are Directors of AFM and represent the MSIF Board which monitors the performance of AFM.

Merseyside Special Investment Fund Limited

Chairman's statement for the year ended 31 March 2002 (continued)

AFM has responsibility for the individual investment and fund management decisions.

An increased and highly skilled and experienced team of 13 fund managers has now been recruited which has equipped AFM to meet the challenge of investing successfully the substantial funds now available to MSIF. AFM also manages Objective One funds similar to MSIF for Finance Cornwall on a commercial basis and an experienced team of 3 fund managers has been recruited.

In late 2002 we suffered the sad and untimely loss of Rose Davies. Rose was the experienced and much loved Investment Director of the Small Firms Fund and will be greatly missed.

Governance

Since my last statement there have been a number of changes to the MSIF Board.

Mark Taylor, who represented the Liverpool Chamber of Commerce as their nominated Director, resigned when he left the Chamber and has been replaced by Simon Edwards, an experienced investment manager, currently Chief Investment Manager of Midas Capital Partners. The Chamber is one of the three guarantors of MSIF.

The Bank of England reaffirmed their role as a guarantor of MSIF until 2006 and Tony Strachan, their Agent for the North West, has been appointed as their nominated Director. Neil Kemsley stepped down as the nominated Director for the Bank of England but has been re-appointed to the Board, in his capacity as Chair of Alliance Fund Managers Limited.

Under the chairmanship of Roy Swainson MSIF Partners Ltd, who are the third guarantor, have been kept closely involved in the major developments in MSIF during the year.

The support of our three guarantors during this period of development has been much appreciated.

The future

AFM, supported by the MSIF Board, are now totally focused on developing deal flow and investing the funds successfully. The targets for the number of investments to be made and the resulting job and other outputs are demanding. However, in addition to meeting those targets, the primary long-term objective is to achieve sufficient financial returns in order to create a self-sustaining fund, to meet the continuing finance needs of Merseyside's small and medium sized businesses.

It has been a very demanding period but, thanks to the skill and commitment of our staff and Directors, the MSIF Group is now well equipped to make a significant and lasting contribution to the regeneration of Merseyside. I would like to thank all those both within MSIF and those we work with in the Merseyside community and beyond, who have contributed to MSIF's success to date.

Mike Davis
Chairman

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2002

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2002.

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.

During the year an in-house fund management team was created through the acquisition of BCE Fund Managers Limited. The company changed its name to Alliance Fund Managers Limited on 10 August 2001.

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 sixth year. It is satisfying to note that it would appear at this point that, overall, the Group will either meet or exceed the targets agreed with the European Commission. Achieving the aspirations of our private sector partners has proved much more difficult but the directors are confident that under its new structure the objective of creating a viable and sustainable successor fund is attainable.

Financial results

The surplus for the year of £779,470 (2001(Restated): £828,133) has been transferred to reserves.

Directors

The directors during the year ended 31 March 2002, were as follows:

Mr M Davis
Lord Alton of Liverpool
Mr N Kemsley – nominated by the Bank of England
Mrs A Redmond
Mr H Rosser
Mr R Swainson
Mr M Taylor - nominated by Liverpool Chamber of Commerce
- resigned 20 December 2002

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2002 (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:

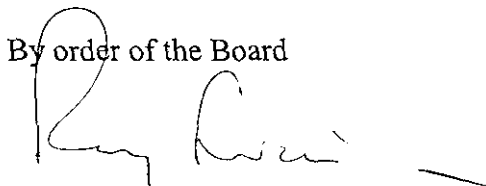
- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare 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 reappoint PricewaterhouseCoopers as auditors will be proposed at the Annual General Meeting.

By order of the Board



R Swainson
Director

24 January 2003

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 (as modified by the revaluation of certain fixed assets) 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. The opinion has been prepared for and only for the company's members 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 directors' report 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.

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.

Merseyside Special Investment Fund Limited

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

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 2002 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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
24 January 2003

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2002

	Notes	2002 £	2001 (Restated) £
Income			
Grants & contributions	2	3,140,764	1,823,588
Fees and other income		3,177,507	307,024
Investment income	3	604,329	632,905
		<u>6,922,600</u>	<u>2,763,517</u>
Administrative and investment expenses		(5,556,309)	(1,170,853)
Amounts written off investments	4	<u>(602,467)</u>	<u>(444,797)</u>
Operating surplus before interest		763,824	1,147,867
Income from bank deposits		419,124	107,651
Interest payable on bank loans and overdrafts		<u>(374,060)</u>	<u>(427,385)</u>
Surplus on ordinary activities before taxation	4	808,888	828,133
Taxation on ordinary activities	5	(29,418)	-
Retained surplus for the financial year	17	<u>779,470</u>	<u>828,133</u>

All operations are continuing.

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

Statement of total recognised gains and losses

	2002 £	2001 (Restated) £
Retained surplus for the financial year	<u>779,470</u>	<u>828,133</u>
Total recognised gains and losses relating to the year	-	-
Prior year adjustment (as explained in note 18)	<u>(5,209,201)</u>	
Total losses recognised since the last annual report	<u>(4,429,731)</u>	

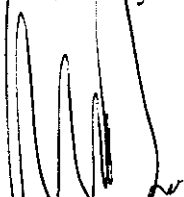
The notes on pages 11 to 22 form an integral part of these financial statements.


Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2002

	Notes	Group 2002 £	2001 (Restated)	Company 2002 £	2001 £
Fixed assets					
Intangible assets	8	204,417	-	-	-
Tangible assets	9	3,100	4,593	-	4,593
Investments	10	4,249,955	4,740,806	14	8
Other investments		5,100	-	-	-
		<u>4,462,572</u>	<u>4,745,399</u>	<u>14</u>	<u>4,601</u>
Current assets					
Debtors	11	3,674,903	1,709,950	2,928,276	855,408
Cash at bank and in hand		<u>33,417,362</u>	<u>2,295,736</u>	<u>43,788</u>	<u>826,932</u>
		<u>37,092,265</u>	<u>4,005,686</u>	<u>2,972,064</u>	<u>1,682,340</u>
Creditors: amounts falling due within one year	12	<u>(2,069,510)</u>	<u>(1,856,750)</u>	<u>(2,328,038)</u>	<u>(1,356,211)</u>
Net current assets		<u>35,022,755</u>	<u>2,148,936</u>	<u>644,026</u>	<u>326,129</u>
Total assets less current liabilities		<u>39,485,327</u>	<u>6,894,335</u>	<u>644,040</u>	<u>330,730</u>
Creditors: amounts falling due after one year	13	(5,744,500)	(5,918,600)	-	-
Provision for liabilities and charges	14	(79,370)	-	-	-
Accruals and deferred income	15	<u>(31,909,091)</u>	<u>(2,841)</u>	<u>-</u>	<u>(2,841)</u>
Net assets		<u>1,752,366</u>	<u>972,894</u>	<u>644,040</u>	<u>327,889</u>
Reserves					
Accumulated reserves	17	<u>1,752,366</u>	<u>972,894</u>	<u>644,040</u>	<u>327,889</u>

The financial statements on pages 8 to 22 were approved by the Board of Directors on 24 January 2003 and were signed on its behalf by


M Davis
Director


N Kemsley
Director

Merseyside Special Investment Fund Limited

Consolidated cash flow statement for the year ended 31 March 2002

	Notes	2002 £	2001 (Restated) £
Net cash flow from continuing operating activities	21	31,458,645	144,308
Returns on investments and servicing of finance			
Interest received		419,124	107,651
Interest paid		(374,060)	(427,385)
		45,064	(319,734)
Capital expenditure and financial investments			
Loan investments made		(1,505,100)	(2,522,500)
Acquisitions and disposals	22	(168,690)	-
Fixed assets acquired		(5,897)	-
Loan repayments received		1,388,386	1,094,003
		(291,301)	(1,428,497)
Net cash inflow/(outflow) before financing		31,212,408	(1,603,923)
Financing			
(Decrease)/Increase in loans from the bank and partners	24	(94,730)	381,600
Increase/(Decrease) in cash in the year		31,117,678	(1,222,323)

During the year a subsidiary company purchased the entire share capital of BCE Fund Managers Limited (now renamed Alliance Fund Managers Limited) for £295,000. Details of the net assets acquired are shown below.

	£
Net assets acquired	
Tangible fixed assets	3,343
Debtors and prepayments	50,745
Bank balances	128,440
Creditors and provisions	(112,528)
Fair value of assets acquired	70,000
Goodwill	227,130
	297,130
Consideration paid:	
Consideration	295,000
costs of acquisition	2,130
	297,130

In the opinion of the directors no fair value adjustments were required to the net book value of assets acquired.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2002

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 accounting

The financial statements have been prepared under the historical cost convention. 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.

Fees and other income

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

Merseyside Special Investment Fund Limited

1 Accounting policies (continued)

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 in limited partnerships are stated at cost less provision for impairment (see note 10b)). 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
------------------	---------

Grants and contributions that relate to specific capital expenditure are treated as deferred income and credited to the income and expenditure account over the related asset's useful life.

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

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.

Contributions towards refurbishments costs

Contributions towards refurbishment costs received from the lessors are credited to the income and expenditure account over the period of the lease to the next rent review date.

Investment income

Investment income represents loan interest receivable on fixed asset 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

	2002	2001 (Restated)
	£	£
Grants and contributions		
- ERDF	2,994,795	1,618,033
- Other contributions	145,969	205,555
	<u>3,140,764</u>	<u>1,823,588</u>

Income arises in the United Kingdom.

Included within grants receivable is £504,293 (2001: £298,236) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

3 Investment income

	2002	2001 (Restated)
	£	£
Income from loan investments	<u>604,329</u>	<u>632,905</u>

Merseyside Special Investment Fund Limited

4 Surplus on ordinary activities before taxation

	2002 £	2001 £ (Restated)
Surplus/Deficit on ordinary activities before taxation is stated after charging/(crediting):		
Amounts written off and provided against fixed asset investments (note 10(a))	602,467	444,797
Amounts provided against investments in Limited Partnerships (note 10(b))	4,090,909	530,000
Release of capital grants (note 10(b))	<u>(4,090,909)</u>	<u>(530,000)</u>
	-	-
Depreciation of tangible fixed assets	9,502	34,053
Auditors' remuneration for:		
Audit fees (Company £35,000, 2001:£33,000)	46,750	33,000
Non audit services	29,375	5,000
Hire of office equipment – operating leases	13,928	13,820
Deferred income release (note 15)	<u>(2,841)</u>	<u>(19,471)</u>

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

5(a) Taxation – ordinary activities

	2002 £	2001 £
UK Corporation tax at 30% (2001: 30%)	(49,952)	-
Deferred tax	<u>79,370</u>	-
	<u>29,418</u>	-

5(b) Factors affecting tax charge for period

	2002 £	2001 £
Profit on ordinary activities before tax	<u>808,890</u>	<u>828,133</u>
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2001:30%)	242,667	248,440
Effects of:		
Expenses/income not deductible for tax purposes	(1,010,062)	(308,779)
Non-taxable dividend income	(2,944)	-
Depreciation in excess of capital allowances	654	9,008
Unrelieved taxation losses carried forward	1,068,437	57,173
Income accrued but taxable in later accounting periods	(323,402)	(5,842)
Adjustments to tax charge in respect of previous periods	<u>(25,302)</u>	-
Current tax credit for the period (note 5(a))	<u>(49,952)</u>	-

5(c) Deferred taxation

	2002 £	2001 £
Origination and reversal of timing differences	48,023	
Adjustments in respect of previous periods	<u>31,347</u>	-
	<u>79,370</u>	-

Merseyside Special Investment Fund Limited

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 £7.5 million (2001: £5.1 million) (company £3.5 million (2001: £1.9 million) at 31 March 2002, which have yet to be agreed with the Inland Revenue.

6 Directors' emoluments

	2002 £	2001 £
Aggregate emoluments	129,989	87,207
Sums paid to third parties for directors' services	47,597	37,194
	<u>177,586</u>	<u>124,401</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 for the provision of services by Mrs Redmond, Messrs Davis, and Taylor respectively (see note 25).

7 Staff costs

	2002 £	2001 £
Wages & Salaries	609,412	88,000
Social security costs	56,794	13,750
Other Pension costs	11,289	-
	<u>677,495</u>	<u>101,750</u>

Directors and employees prior to 24 July 2001 were seconded from a former group company under a paymaster contract.

The average number of employees during the year was 19 (2001: 9).

The company operates four defined contribution pension schemes.

8 Intangible assets

Goodwill of £227,130 arose out of the purchase of BCE Fund Managers (Merseyside) Limited (now renamed Alliance Fund Managers Limited).

	£
Cost	
Additions	227,130
Amortisation	
Charge for the period	(22,713)
Net book amount	<u>204,417</u>

Merseyside Special Investment Fund Limited

9 Tangible fixed assets

	Office Equipment
Cost or valuation	£
At 1 April 2001	170,266
Additions during the year	9,240
Disposals during the year	<u>(3,161)</u>
At 31 March 2002	<u>176,345</u>
Accumulated depreciation	
At 1 April 2001	165,673
Provided during year	9,502
Disposals during the year	<u>(1,930)</u>
At 31 March 2002	<u>173,245</u>
Net book value at 31 March 2002	<u>3,100</u>
Net book value at 31 March 2001	<u>4,593</u>

10 Fixed asset investments

Group

(a) Loan investments made by Merseyside Special Investment Mezzanine Fund Limited

	Loan investments £	Participating Interest Non-equity £	Total £
Cost			
At 1 April 2001	9,145,000	70,000	9,215,000
Additions	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
At 31 March 2002	<u>10,645,000</u>	<u>70,000</u>	<u>10,715,000</u>
Repayments			
At 31 March 2002	<u>4,123,781</u>	<u>70,000</u>	<u>4,193,781</u>
Amounts written off			
At 1 April 2001	1,532,797	-	1,532,797
Movement in year	<u>456,745</u>	<u>-</u>	<u>456,745</u>
At 31 March 2002	<u>1,989,542</u>	<u>-</u>	<u>1,989,542</u>
Provided for			
At 1 April 2001	136,000	-	136,000
Movement in year	<u>145,722</u>	<u>-</u>	<u>145,722</u>
At 31 March 2002	<u>281,722</u>	<u>-</u>	<u>281,722</u>
Net book value			
At 31 March 2002	<u>4,249,955</u>	<u>-</u>	<u>4,249,955</u>
At 31 March 2001	<u>4,740,798</u>	<u>-</u>	<u>4,740,798</u>

Merseyside Special Investment Fund Limited

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

	Investments	Capital grants recognised
Cost		
Balance brought forward	8,501,100	(8,501,100)
Movement during period	<u>4,090,909</u>	<u>(4,090,909)</u>
Balance carried forward	<u>12,592,009</u>	<u>(12,592,009)</u>
Amounts written off/released		
Balance brought forward	(8,501,100)	8,501,100
Movement during period	<u>(4,090,909)</u>	<u>4,090,909</u>
Balance carried forward	<u>(12,592,009)</u>	<u>12,592,009</u>
Net book value	<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.

(c) Investments - Other

	£
At 1 April 2001	-
Additions	<u>5,100</u>
At 31 March 2002	<u>5,100</u>

Company

	2002 £	2001 £
Interests in group undertakings at cost	<u>14</u>	<u>8</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 Rebate Limited	Service 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.

Merseyside Special Investment Fund Limited

11 Debtors

	Group		Company	
	2002	2001 (Restated)	2002	2001
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	369,594	229,465	437,409	-
Amounts owed by group undertakings	-	-	305,615	87,369
Other debtors	1,007,267	666,829	2,185,252	758,459
Prepayments and accrued income	2,298,042	96,793	-	-
Project development costs	-	716,863	-	9,580
	<u>3,674,903</u>	<u>1,709,950</u>	<u>2,928,276</u>	<u>855,408</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	2002	2001 (Restated)	2002	2001
	£	£	£	£
Amounts falling due within one year:				
Bank overdraft	3,948	-	-	-
Trade creditors	645,075	399,447	-	-
Amounts owed to group undertakings	-	-	1,038,706	732,777
Other taxation and social security	15,807	5,000	-	5,000
Other creditors	1,185,533	642,987	1,184,846	557,559
Accruals	219,147	809,316	104,486	60,975
	<u>2,069,510</u>	<u>1,856,750</u>	<u>2,328,038</u>	<u>1,356,211</u>

13 Creditors: amounts falling due after more than one year

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loans repayable within five years (Merseyside Special Investment Mezzanine Fund Limited)	5,744,500	5,918,600	-	-

At 31 March 2002 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.

Merseyside Special Investment Fund Limited

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 the debtor not provided comprises:

	Deferred Tax Provided		Deferred Tax Not Recognised	
	2002	2001	2002	2001
	£	£	£	£
At start of period	-	-	-	-
Excess of depreciation over tax allowance	-	-	(2,742)	(2,247)
Other timing differences	465,295	-	(353)	(852)
Losses	(385,925)	-	(1,756,641)	(928,907)
At end of period	79,370	-	(1,759,736)	(932,006)

15 Accruals and deferred income

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Capital grants received in advance	31,909,091	-	-	-
Contributions towards refurbishment costs	-	2,841	-	2,841
	<u>31,909,091</u>	<u>2,841</u>	<u>-</u>	<u>2,841</u>

Group and Company	2002	2001
	£	£
Contributions towards refurbishment costs		
At 1 April	2,841	22,312
Amortised in the year	<u>(2,841)</u>	<u>(19,471)</u>
At 31 March	<u>-</u>	<u>2,841</u>

The company received a contribution towards the refurbishment costs of its offices from its landlord. This was utilised over the period from its issue to the next rent review in September 2001. The company also received a contribution from Merseyside Development Corporation towards its set up costs, which has been amortised over the useful life of the associated assets of five years.

16 Called-up share capital

The company does not have a 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 2002 the company had three members (2001 : 3).

Merseyside Special Investment Fund Limited

17 Accumulated surplus

	Group 2002 £	Company 2002 £
Income and expenditure account		
At 1 April 2001: as originally stated	6,182,097	327,889
Prior year adjustment (see note 18)	(5,209,201)	-
At 1 April 2001: restated	<u>972,896</u>	<u>327,889</u>
 Surplus for the year	 779,470	 316,151
At 31 March 2002	<u>1,752,366</u>	<u>644,040</u>

18 Prior Year Adjustment

The consolidated financial statements previously were prepared with the intention of displaying the state of affairs of the group including all of the funds under management. However the directors consider the revised financial statements now better reflect the economic interests of the group, following receipt of a second tranche of funding from the EU, the creation of a number of additional Limited Partnerships, and the acquisition of the Alliance Fund Managers group. It is not therefore considered appropriate to continue to consolidate the Limited Partnerships into the accounts of the MSIF group.

The impact of this adjustment has been to reduce the retained surplus for the year ended 31 March 2001 by £5,209,201.

19 Capital commitments

The Group had capital commitments of £Nil at the year end (2001: £Nil).

20 Financial commitments

At 31 March 2002, the Group had annual commitments under non-cancellable operating leases as set out below:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiring:				
Between two and five years	<u>-</u>	<u>13,928</u>	<u>-</u>	<u>3,845</u>
	<u>-</u>	<u>13,928</u>	<u>-</u>	<u>3,845</u>

Merseyside Special Investment Fund Limited

21 Reconciliation of operating surplus to net cash inflow from operating activities

	2002 £	2001 £
Operating surplus	763,824	1,147,867
Depreciation	9,502	34,053
Loss on disposal of fixed assets	1,231	-
Goodwill amortisation	22,713	-
Deferred income amortisation	(2,841)	(19,471)
Amounts written off investments	602,467	444,797
(Increase)/decrease in debtors	(1,914,208)	5,857
Increase/(decrease) in creditors	66,866	(1,468,795)
Increase in capital grants received in advance	31,909,091	-
Net cash inflow from operating activities	<u>31,458,645</u>	<u>144,308</u>

22 Acquisitions and Disposals

	£
Purchase of BCE Fund Managers (Merseyside) Limited	(297,130)
Cash acquired with subsidiary	<u>128,440</u>
Net cash outflow for acquisitions and disposals	<u>(168,690)</u>

23 Reconciliation of net cash flow to movement in net debt

	2002 £	2001 £
Increase/(Decrease) in cash in the year	31,117,678	(1,222,323)
Cash inflow/(outflow) from change in debt	<u>94,730</u>	<u>(381,600)</u>
Change in net debt resulting from cash flows	31,212,408	(1,603,923)
Net debt at 1 April	(3,622,864)	(2,018,941)
Net debt at 31 March	<u>27,589,544</u>	<u>(3,622,864)</u>

24 Analysis of net debt

	At 1 April 2001 £	Cashflow	At 31 March 2002 £
Net Cash			
Cash at bank and in hand	2,295,736	31,121,626	33,417,362
Bank overdrafts	-	(3,948)	(3,948)
Debt due after 1 year	(5,918,600)	94,730	(5,823,870)
	<u>(3,662,864)</u>	<u>31,212,408</u>	<u>27,589,544</u>

Merseyside Special Investment Fund Limited

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.