

**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 2006**

Registered Number: 2981031



# **Merseyside Special Investment Fund Limited**

## **Annual report and financial statements**

**For the year ended 31 March 2006**

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# **Merseyside Special Investment Fund Limited**

## **Directors and Company information**

### **Directors**

Lord Alton of Liverpool – resigned 16 December 2005

Mr N Kemsley – resigned 19 July 2006

Mr R Swainson

Mr J E Young

Professor M Hulme

Mr Ian Meadows

Mr T Atherton

### **Secretary**

DWF Secretarial Services Limited

### **Registered Office**

5<sup>th</sup> 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 2006**

The last year, my second as Chairman of Merseyside Special Investment Fund, has been a busy but stimulating twelve months.

Deal flow remains a key issue but MSIF's reputation in the marketplace is positive and I am satisfied overall with the performance of all four MSIF funds.

MSIF's in-house Fund Management Company, AFM has continued to perform well under the leadership of its Managing Director, Mark Fuller.

It remains a stiff challenge to reach our investment targets, but I remain confident that our outputs are achievable, and that we will generate the commercial returns necessary to ensure our sustainability post 2008.

As predicted, The Liverpool Seed Fund has seen an exceptionally busy first year. A total of £3.4 million has been invested in 21 businesses to date. Liverpool Ventures, a subsidiary of MSIF, continues to work closely with the Liverpool Seed Fund assisting with applications and providing valuable post investment support to businesses supported by this Fund.

The Small Firms Fund has to date made 316 investments totalling £9.9million. The Mezzanine Fund has invested £ 9.6 million in a total of 29 businesses and the Venture Fund has made a total of 17 investments totalling £12.6 million. The Venture and Mezzanine Fund have again this year made several investments alongside one another. The limited partnership status of Venture Funds One and Two has been extended for a further two years, which reflects the quality of some of the companies within these portfolios. The management agreement for Mezzanine Fund Ltd has also been extended for a further two years. This will allow MSIF an enhanced opportunity to realise some significant value from these investments in due course.

Mark Fuller and the Investment Directors of each Fund should be congratulated on these results.

MSIF Partners continues to operate effectively under the leadership of Roy Swainson who has continued to work hard to maintain good relationships with key Merseyside organisations.

This year marks the retirement of MSIF's Deputy Chairman, Neil Kemsley, who must be acknowledged as a pioneering thinker and one of the main founders of MSIF. His dedication and commitment to MSIF was unwavering throughout his twelve years of service and he played a major role in developing the Fund to the stage we are at today. He was also responsible for enabling the MSIF model to be replicated in other Objective One areas.

Lord Alton of Liverpool resigned earlier this year in order to concentrate his efforts on the important work he does in the House of Lords campaigning for human rights and other issues. His integrity and pragmatic yet considered approach made him a valued member of the Board. I would like to thank Lord Alton and Neil Kemsley for their invaluable contribution to the success 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 and look forward to a successful and inspiring year ahead.

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

## **Merseyside Special Investment Fund Limited**

### **Report of the directors for the year ended 31 March 2006**

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2006.

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 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 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 tenth year. Work on the new funds has progressed well.

#### **Financial results**

The profit for the year of £1,825,136 (profit 2005: £1,459,591) has been transferred to reserves.

#### **Directors**

The directors during the year ended 31 March 2006, were as follows:

Lord Alton of Liverpool – resigned 16 December 2005

Mr N Kemsley –resigned 19 July 2006

Mr R Swainson

Mr J E Young

Professor M Hulme

Mr Ian Meadows

Mr T Atherton

## **Merseyside Special Investment Fund Limited**

### **Report of the directors for the year ended 31 March 2006 (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:

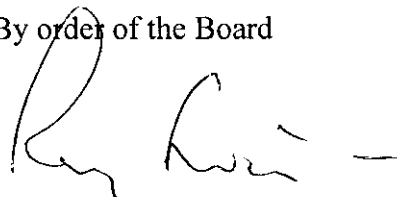
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare 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**  
**19 July 2006**

## **Merseyside Special Investment Fund Limited**

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

We have audited the group and parent company financial statements (the "financial statements") of Merseyside Special Investment Fund for the year ended 31 March 2006 which comprise the Group and Company Profit and Loss Accounts, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the company's affairs as at 31 March 2006 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**Liverpool**  
**19 July 2006**



# Merseyside Special Investment Fund Limited

## Consolidated income and expenditure account for the year ended 31 March 2006

	Notes	2006 £	2005 £
<b>Income</b>			
Grants & contributions	2	742,480	295,043
Fees and other income		2,299,673	2,692,428
Investment income	3	286,331	110,493
		<u>3,328,484</u>	<u>3,097,964</u>
Administrative and investment expenses		(3,439,591)	(3,166,846)
Amounts written off investments	10 (a)	(11,400)	(22,200)
Movement in provision for impairment of fixed asset investments	10 (a)	117,002	176,597
		<u>117,002</u>	<u>176,597</u>
<b>Operating surplus/(deficit) before interest</b>		<b>(5,505)</b>	<b>85,515</b>
Interest receivable on bank deposits		1,869,342	1,356,723
Interest payable on bank loans and overdrafts		(20,720)	(62,552)
Other interest receivable		16,783	-
		<u>1,865,405</u>	<u>1,294,171</u>
<b>Surplus on ordinary activities before taxation</b>	5	<b>1,859,900</b>	<b>1,379,686</b>
Taxation on ordinary activities	5(a)	(34,764)	79,905
		<u>1,825,136</u>	<u>1,459,591</u>
<b>Retained surplus for the financial year</b>	17	<b>1,825,136</b>	<b>1,459,591</b>

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.

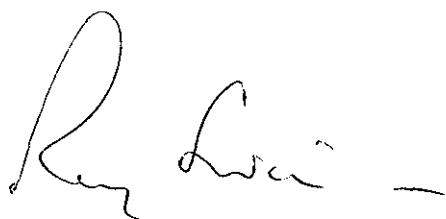
The notes on pages 10 to 21 form an integral part of these financial statements.

# Merseyside Special Investment Fund Limited

## Balance sheets at 31 March 2006

	Notes	Group 2006 £	2005 £	Company 2006 £	2005 £
<b>Fixed assets</b>					
Intangible assets	8	22,713	68,139	-	-
Tangible assets	9	79,525	71,182	-	-
Investments- loans	10 (a)	22,260	263,461	19	19
Investments- other	10 (c)	294,050	122,700	293,750	117,500
		<u>418,548</u>	<u>525,482</u>	<u>293,769</u>	<u>117,519</u>
<b>Current assets</b>					
Debtors	11	938,850	932,386	1,101,486	991,629
Cash at bank and in hand		<u>36,677,838</u>	<u>45,677,814</u>	<u>665,605</u>	<u>1,143,568</u>
		<u>37,616,688</u>	<u>46,610,200</u>	<u>1,767,091</u>	<u>2,135,197</u>
<b>Creditors: amounts falling due within one year</b>	12	(436,333)	(415,179)	(383,888)	(500,912)
Net current assets		<u>37,180,355</u>	<u>46,195,021</u>	<u>1,383,203</u>	<u>1,634,285</u>
Total assets less current liabilities		<u>37,598,903</u>	<u>46,720,503</u>	<u>1,676,972</u>	<u>1,751,804</u>
<b>Creditors: amounts falling due after more than one year</b>	13	(100,000)	(926,500)	-	-
Provision for liabilities and charges	14	(173,100)	(138,336)	-	-
Accruals and deferred income	15	<u>(32,476,727)</u>	<u>(42,631,727)</u>	<u>-</u>	<u>-</u>
Net assets		<u>4,849,076</u>	<u>3,023,940</u>	<u>1,676,972</u>	<u>1,751,804</u>
<b>Reserves</b>					
Accumulated reserves	17	<u>4,949,076</u>	<u>3,023,940</u>	<u>1,676,972</u>	<u>1,751,804</u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 19 July 2006 and were signed on its behalf by



**R Swainson**  
Director

# Merseyside Special Investment Fund Limited

## Consolidated cash flow statement for the year ended 31 March 2006

	Notes	2006 £	2005 £
Net cash outflow from continuing operating activities	21	(10,159,556)	(3,672,700)
<b>Returns on investments and servicing of finance</b>			
Interest received		1,869,342	1,356,723
Interest paid		(20,720)	(62,552)
		<u>1,848,622</u>	<u>1,294,171</u>
<b>Capital expenditure and financial investments</b>			
Equity investments made		(22,260)	-
Acquisitions and disposals	22	(176,350)	(117,600)
Fixed assets acquired		(35,621)	(25,567)
Fixed assets disposals		2,626	-
Loan repayments received		<u>369,063</u>	<u>776,414</u>
		<u>137,458</u>	<u>633,247</u>
<b>Net cash (outflow) before financing</b>		<u>(8,173,476)</u>	<u>(1,745,282)</u>
<b>ERDF Cash</b>		-	20,000,000
<b>Financing</b>			
Decrease in loans	24	<u>(826,500)</u>	<u>(653,500)</u>
<b>(Decrease)/increase in cash in the year</b>		<u>(8,999,976)</u>	<u>17,601,218</u>

All cash held by the investment companies identified in note 10(b), amounting to £32,476,727 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 2006**

#### **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 2006 (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 2006 (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

	2006 £	2005 £
Grants and contributions		
- ERDF	429,914	189,979
- Other contributions	312,566	105,064
	<u>742,480</u>	<u>295,043</u>

Income arises in the United Kingdom.

Included within grants and contributions is £Nil (2005: £Nil) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

### 3 Investment income

	2006 £	2005 £
Profit on redemption of investments	252,500	11,103
Income from loan investments	33,831	99,390
	<u>286,331</u>	<u>110,493</u>

# Merseyside Special Investment Fund Limited

## Notes to the financial statements for the year ended 31 March 2006 (continued)

### 4 Surplus on ordinary activities before taxation

	2006 £	2005 £
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Amounts written off fixed asset investments (note 10a)	11,400	22,200
Movement in provision for impairment of fixed asset investments (note 10a)	(117,002)	(176,597)
Amounts provided against investments in Limited Partnerships (note 10b)	10,155,000	4,049,364
Release of capital grants (note 10b)	(10,155,000)	(4,049,364)
Amortisation of intangible fixed assets	45,426	45,426
Depreciation of tangible fixed assets	24,652	20,027
Auditors' remuneration for:		
Audit fees (Company £14,300, 2005: £13,250)	30,962	33,506
Non audit services	44,763	58,550
Operating lease costs-land and buildings	175,460	156,810

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

### 5(a) Taxation – ordinary activities

	2006 £	2005 £
UK Corporation tax at 30% (2005: 30%)	-	-
Deferred tax	34,764	(79,905)
	<u>34,764</u>	<u>(79,905)</u>

### 5(b) Factors affecting tax charge for period

	2006 £	2005 £
Surplus on ordinary activities before tax	<u>1,859,900</u>	<u>1,379,686</u>
Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2005:30%)	557,970	413,906
Effects of:		
Expenses not deductible for tax purposes	11,123	22,775
Allocation from partnerships	(349,407)	(675,218)
Depreciation in advance of capital allowances	(979)	(1,071)
Unrelieved taxation losses carried forward	355,621	949,174
Income accrued but taxable in later accounting periods	(523,932)	(584,491)
Decrease in short term timing differences	(50,398)	(125,077)
Adjustments to tax charge in respect of previous periods	2	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 2006 (continued)

### 5 (c) Deferred taxation

	2006 £	2005 £
Origination and reversal of timing differences	117,873	235,540
Adjustments in respect of previous periods	(83,109)	(315,545)
	<u>34,764</u>	<u>(79,905)</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 £17.5 million (2005: £14.9 million) (company £4.5 million (2005: £4.3 million) at 31 March 2006, which have yet to be agreed with the Inland Revenue.

### 6 Directors' emoluments

	2006 £	2005 £
Aggregate emoluments	113,950	134,725
Sums paid to third parties for directors' services	<u>42,421</u>	<u>22,834</u>
	<u>156,371</u>	<u>157,559</u>

The amount in respect of sums paid to third parties relates to amounts payable to Liverpool Chamber of Commerce, Teleconomy Consultancy (now known as Intersperience) and Atherton Consulting for the services of Mr Ian Meadows, Mr Michael Hulme and Mr Terence Atherton respectively.

### 7 Staff costs

	2006 £	2005 £
Wages & Salaries	1,734,978	1,544,802
Social Security Costs	172,780	144,392
Other Pension Costs	<u>63,598</u>	<u>41,475</u>
	<u>1,959,356</u>	<u>1,730,669</u>

The average number of employees during the year was 35 (2005: 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 2006 (continued)

### 8 Intangible assets (Group)

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

	£
<b>Cost</b>	
At 1 April 2005 and 31 March 2006	<u>227,130</u>
<b>Amortisation</b>	
At 1 April 2005	158,991
Charge for the year	<u>45,426</u>
At 31 March 2006	204,417
<b>Net book amount at 31 March 2006</b>	<u>22,713</u>
 Net book amount at 31 March 2005	 <u>68,139</u>

### 9 Tangible fixed assets

	Office Equipment
<b>Cost or valuation</b>	£
At 1 April 2005	144,767
Additions during the year	35,621
Disposals during the year	<u>(2,626)</u>
At 31 March 2006	<u>177,762</u>
<b>Accumulated depreciation</b>	
At 1 April 2005	73,585
Provided during year	24,926
Disposals during the year	<u>(274)</u>
At 31 March 2006	<u>98,237</u>
 <b>Net book value at 31 March 2006</b>	 <u>79,525</u>
 Net book value at 31 March 2005	 <u>71,182</u>

# Merseyside Special Investment Fund Limited

## Notes to the financial statements for the year ended 31 March 2006 (continued)

### 10 Fixed asset investments

#### Group

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

	Equity £	Non-Equity £	Loan/Equity Investments £
<b>Cost</b>			
At 1 April 2005	-	3,301,719	3,301,719
Additions in year	22,260	-	22,260
Loan repayments	-	(369,063)	(369,063)
<b>At 31 March 2006</b>	<b>22,260</b>	<b>2,932,656</b>	<b>2,954,916</b>
<b>Amounts written off</b>			
At 1 April 2005	-	-	2,613,130
Movement in year	-	-	11,400
<b>At 31 March 2006</b>	<b>-</b>	<b>-</b>	<b>2,624,530</b>
<b>Amounts provided for</b>			
At 1 April 2005	-	-	425,128
Movement in year	-	-	(117,002)
<b>At 31 March 2006</b>	<b>-</b>	<b>-</b>	<b>308,126</b>
<b>Net book value</b>			
<b>At 31 March 2006</b>	<b>22,260</b>	<b>-</b>	<b>22,260</b>
At 31 March 2005	-	-	263,461

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

	Investments £	Capital grants Recognised £
<b>Cost</b>		
Balance brought forward	21,869,373	(21,869,373)
Movement during year	10,155,000	(10,155,000)
Balance carried forward	<u>32,024,373</u>	<u>(32,024,373)</u>
<b>Amounts written off/released</b>		
Balance brought forward	(21,869,373)	21,869,373
Movement during year	(10,155,000)	10,155,000
Balance carried forward	<u>(32,024,373)</u>	<u>32,024,373</u>
<b>Net book value at 31 March 2006</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31 March 2005</b>	<b>-</b>	<b>-</b>

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 2006 (continued)

### (c) Investments - Other

	£
At 1 April 2005	122,700
Additions	176,350
Amounts written off investments	(5,000)
At 31 March 2006	294,050

### Company

	2006 £	2005 £
At 1 April 2005	19	18
Additions	-	1
Interests in group undertakings at cost	19	19

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
<b>Companies:</b>	
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	
	2006 £	2005 £	2006 £	2005 £
<b>Amounts falling due within one year:</b>				
Trade debtors	795,858	853,510	518,650	833,937
Amounts owed by group undertakings	-	-	582,158	157,692
Other debtors	-	-	-	-
Other taxation and social security	39,120	-	678	-
Prepayments and accrued income	87,089	78,876	-	-
	922,067	932,386	1,101,486	991,629
<b>Amounts falling due after one year:</b>				
Trade debtors	16,783	-	-	-
<b>Total debtors</b>	<b>938,850</b>	<b>932,386</b>	<b>1,101,486</b>	<b>991,629</b>

## Merseyside Special Investment Fund Limited

### Notes to the financial statements for the year ended 31 March 2006 (continued)

#### 11 Debtors (continued)

The amounts owed by group undertakings are unsecured, repayable on demand and at a nil rate of interest, with the exception of amounts totalling £Nil owed by Liverpool Ventures Ltd which had an interest rate of base rate plus 2% (2005 £31,809) and £230,000 owed by Merseyside Special Investment Mezzanine Fund Ltd which has an interest rate of base rate plus 2.9%.

#### 12 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
<b>Amounts falling due within one year:</b>				
Trade creditors	74,878	76,102	-	-
Amounts owed to group undertakings	94,932	-	320,484	362,440
Other taxation and social security	57,417	142,153	-	77,859
Accruals	209,106	196,924	63,404	60,613
	<u>436,333</u>	<u>415,179</u>	<u>383,888</u>	<u>500,912</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	
	2006	2005	2006	2005
	£	£	£	£
Loans repayable within five years (Liverpool Ventures Limited)	100,000	100,000	-	-
Bank loans repayable within five years (Merseyside Special Investment Mezzanine Fund Limited)	-	826,500	-	-

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

At 31 March 2006 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

## Notes to the financial statements for the year ended 31 March 2006 (continued)

### 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	
	2006	2005	2006	2005
	£	£	£	£
At start of period	138,336	218,241	(2,810,603)	(2,521,424)
Excess of depreciation over tax allowance		-	3,564	1,239
Other timing differences	117,873	235,540	491,331	474,026
Losses	(83,109)	(315,445)	(616,483)	(764,444)
At end of period	<u>173,100</u>	<u>138,336</u>	<u>(2,932,191)</u>	<u>(2,810,603)</u>

### 15 Accruals and deferred income

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Capital grants received in advance	<u>32,476,727</u>	<u>42,631,727</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 2006 the company had three members (2005 : 3).

### 17 Accumulated reserve

	Group	Company
	£	£
Income and expenditure account		
At 1 April 2005	3,023,940	1,751,804
Surplus for the year	<u>1,825,136</u>	<u>(74,832)</u>
At 31 March 2006	<u>4,949,076</u>	<u>1,676,972</u>

### 18 Capital commitments

The Group had capital commitments of £Nil at the year end (2005: £Nil).

## Merseyside Special Investment Fund Limited

### Notes to the financial statements for the year ended 31 March 2006 (continued)

#### 19 Financial commitments

At 31 March 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and Buildings £	2005 Land and buildings £
<b>Expiring:</b>		
Between two and five years	<u>175,460</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.

#### 21 Reconciliation of operating surplus to net cash outflow from operating activities

	2006 £	2005 £
Operating (deficit)tsurplus	(5,505)	85,515
Depreciation	24,652	20,027
Goodwill amortisation	45,426	45,426
Amounts (written back) to investments	(100,602)	(154,397)
Decrease in debtors under 1 year	10,319	483,922
Increase/(decrease) in creditors	21,154	(103,829)
Decrease in capital grants received in advance	<u>(10,155,000)</u>	<u>(4,049,364)</u>
Net cash outflow from operating activities	<u>(10,159,556)</u>	<u>(3,672,700)</u>

#### 22 Acquisitions and Disposals

	2006 £	2005 £
Acquisitions	(176,350)	(117,600)
Redemption of partnership interests	-	-
Net cash outflow for acquisitions and disposals	<u>(176,350)</u>	<u>(117,600)</u>

# Merseyside Special Investment Fund Limited

## Notes to the financial statements for the year ended 31 March 2006 (continued)

### 23 Reconciliation of net cash flow to movement in net debt

	2006 £	2005 £
(Decrease)/increase in cash in the year	(8,999,976)	17,601,218
Cash outflow from change in debt	<u>826,500</u>	<u>653,500</u>
Change in net debt resulting from cash flows	(8,173,476)	18,254,718
Net debt at 1 April 2005	<u>44,751,314</u>	<u>26,496,596</u>
Net debt at 31 March 2006	<u>36,577,838</u>	<u>44,751,314</u>

### 24 Analysis of net debt

	At 1 April 2005 £	Cashflow £	At 31 March 2006 £
Net Cash			
Cash at bank and in hand	45,677,814	(8,999,976)	36,677,838
Debt due after 1 year	(926,500)	826,500	(100,000)
	<u>44,751,314</u>	<u>(8,173,476)</u>	<u>36,577,838</u>

### 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.