



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 2007

Registered Number 2981031

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Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2007

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Merseyside Special Investment Fund Limited

Directors and Company information

Directors

Mr N Kemsley – resigned 19 July 2006

Mr R Swainson

Mr J E Young – resigned 31 December 2006

Professor M Hulme

Mr Ian Meadows – resigned 31 March 2007

Mr T Atherton

Mr R Morris – appointed 29 January 2007

Mr J Stopforth – appointed 1 April 2007

Secretary

Mrs L Greenhalgh

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
North West Larger Business Team
1 Marsden Street
Manchester
M2 1HW

Solicitors

Davies Wallis Foyster
5 Castle Street
Liverpool
L2 4XE

Merseyside Special Investment Fund Limited

Chairman's Statement

For the year ended 31 March 2007

The last year, my third as Chairman of the board of Merseyside Special Investment Fund, has been a busy and rewarding period

The Fund has always faced ambitious targets and although there is still some way to go I am confident that MSIF can fully invest all its funds and make the necessary commercial return that will enable MSIF to continue post-2008. However, I feel it is clear that since its inception in 1996, MSIF has already achieved its main objective, making a positive and sustainable impact on the local economy

MSIF's in-house fund management company, Alliance Fund Managers (AFM) continues to successfully drive new investments and manage the portfolio well. Managing Director, Mark Fuller, has successfully motivated and inspired the AFM staff and has the energy, skill and focus to enable MSIF to achieve its targets

The Small Firms Fund has made 379 investments totalling £12.2m and the financial year 06/07 marks its most successful to date. In the Mezzanine Fund a total of 35 transactions has been successfully completed and the fund has invested £12.1m. The Venture Fund has invested £16.4m in 22 businesses. MSIF's newest fund, the Liverpool Seed Fund has invested £8.2m in a total of 35 businesses and has committed a further £0.8m. A number of syndicated investments made up of Venture and Mezzanine or Venture and Seed funding have been made, emphasising MSIF's ability to offer a variety of funding solutions and provide a crucial alternative source of finance to Merseyside's business community.

Money with Management continues to be one of the key benefits of MSIF finance and is a service that makes a significant impact on the growth and success of a large number of investee businesses

Many recent investments are in businesses that have returned to MSIF for second and third rounds of funding which is a positive reflection of the value of the funding we provide and the demand in the marketplace

MSIF has a solid reputation in the region but although deal flow is steady, maintaining and driving further deal flow remains a priority

Liverpool Ventures, the MSIF subsidiary that was set up to assist businesses applying to and receiving investment from MSIF's Seed Fund has recently moved into offices within MSIF's registered address. The move is both practical and positive and will undoubtedly aid the effectiveness of the working partnership between the two organisations. Malcolm Stewart was appointed this year as Managing Director and is successfully leading the expanding team at Liverpool Ventures

MSIF Partners continues to operate effectively under the direction of MSIF Director Roy Swanson who is a tremendous ambassador for MSIF. Regular communication with the key organisations that make up MSIF Partners has contributed greatly to relationship building and working with other agencies on a range of initiatives to support our region's SMEs

Merseyside Special Investment Fund Limited
Chairman's Statement (continued)

For the year ended 31 March 2007

During the year, in accordance with their stated long-term wishes, the Bank of England ceased to be a guarantor of MSIF. I would like to thank the Bank of England and its representatives for its initial and continued support since 1996. With this change John Young has resigned as a board member. My sincere thanks go to John for his support during his office.

The Mersey Partnership has joined the Liverpool Chamber of Commerce and Industry as a guarantor of MSIF and I am delighted to welcome Roy Morris, Chairman of The Mersey Partnership and Jack Stopforth, Chief Executive Officer of The Liverpool Chamber of Commerce and Industry as board members. I very much look forward to working with Roy and Jack, their vast experience and in-depth knowledge of the local business community will be a great asset to MSIF as it enters this next crucial phase. Jack replaces Ian Meadows who has represented the Chamber for over two years and I am very grateful for his help and support during that time.

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 2007

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2007

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 eleventh year, and currently has four active funds that are investing in Merseyside. Further commentary on the business is referred to in the Chairman's statement on page 2 of this report

Financial results

The profit for the year of £1,195,063 (profit 2006: £1,825,136) has been transferred to reserves

Future Outlook

The current contracts will continue to oversee investment by the funds until late 2008/early 2009 and then manage the funds to an exit position until 2011. MSIF and its fund manager AFM Ltd are exploring opportunities to raise new investment funds in order to provide continuity of investment for the start of 2009

Risks and Uncertainties

A key risk for the business is that no or insufficient new funds will be raised and no investment contracts will be established. In addition there is a risk that the current funds' investment performance will not occur as planned and the management fee will be adversely affected. Work has begun as mentioned above to ensure that the company is not in this position.

A further risk to the business is the retention of our employees. There are training programmes and remuneration schemes in place to mitigate staff turnover.

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2007 (continued)

Key Performance Indicators

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

The investment statistics can be found within the Chairman's statement on page 2 of this report, and to date MSIF has created and preserved 5,988 and 4,302 jobs respectively.

Directors

The directors during the year ended 31 March 2007, were as follows

Mr N Kemsley –resigned 19 July 2006

Mr R Swainson

Mr J E Young – resigned 31 December 2006

Professor M Hulme

Mr Ian Meadows – 31 March 2007

Mr T Atherton

Mr R Morris – appointed 29 January 2007

Mr J Stopforth – appointed 1 April 2007

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

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that period.

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2007 (continued)

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 UK 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, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

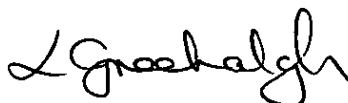
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding 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 and the provision of information to auditors

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

The directors who held office as at the date of approval of this directors' report confirm that so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and that each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



L Greenhalgh
Secretary
23 July 2007

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 Limited for the year ended 31 March 2007 which comprise the Group Profit and Loss Account, 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.

In addition we 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, 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.

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.

Merseyside Special Investment Fund Limited**Independent auditors' report to the members of Merseyside Special Investment Fund Limited (continued)****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 parent company's affairs as at 31 March 2007 and of the group's profit and cash flows for the year then ended,
- the financial statements 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
23 July 2007

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2007

	Notes	2007 £	2006 £
Income			
Grants & contributions	2	1,142,702	742,480
Fees and other income		2,565,315	2,299,673
Investment income	3	59,344	286,331
		<u>3,767,361</u>	<u>3,328,484</u>
Administrative and investment expenses		(3,978,218)	(3,439,591)
Amounts written off investments	10 (a)	(72,222)	(11,400)
Movement in provision for impairment of fixed asset investments	10 (a)	86,787	117,002
		<u>(196,292)</u>	<u>(5,505)</u>
Operating (deficit) before interest			
Interest receivable on bank deposits		1,391,592	1,869,342
Interest payable on bank loans and overdrafts		-	(20,720)
Other interest receivable		22,228	16,783
		<u>1,217,528</u>	<u>1,859,900</u>
Surplus on ordinary activities before taxation	5		
Taxation on ordinary activities	5(a)	(22,465)	(34,764)
		<u>1,195,063</u>	<u>1,825,136</u>
Retained surplus for the financial year	17		

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 12 to 23 form an integral part of these financial statements

Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2007

	Notes	Group		Company	
		2007 £	2006 £	2007 £	2006 £
Fixed assets					
Intangible assets	8	-	22,713	-	-
Tangible assets	9	68,241	79,525	-	-
Investments- loans	10 (a)	87,363	22,260	-	-
Investments- other	10 (c)	294,050	294,050	293,769	293,769
		<u>449,654</u>	<u>418,548</u>	<u>293,769</u>	<u>293,769</u>
Current assets					
Debtors	11	981,095	938,850	1,031,378	1,101,486
Cash at bank and in hand		21,957,138	36,677,838	587,678	665,605
		<u>22,938,233</u>	<u>37,616,688</u>	<u>1,619,056</u>	<u>1,767,091</u>
Creditors: amounts falling due within one year	12	(408,456)	(436,333)	(365,329)	(383,888)
Net current assets		<u>22,529,777</u>	<u>37,180,355</u>	<u>1,253,727</u>	<u>1,383,203</u>
Total assets less current liabilities		<u>22,979,431</u>	<u>37,598,903</u>	<u>1,547,496</u>	<u>1,676,972</u>
Creditors: amounts falling due after more than one year	13	(100,000)	(100,000)	-	-
Provision for liabilities and charges	14	(195,565)	(173,100)	-	-
Accruals and deferred income	15	(16,639,727)	(32,476,727)	-	-
Net assets		<u>6,044,139</u>	<u>4,849,076</u>	<u>1,547,496</u>	<u>1,676,972</u>
Reserves					
Accumulated reserves	17	<u>6,044,139</u>	<u>4,849,076</u>	<u>1,547,496</u>	<u>1,676,972</u>

The financial statements on pages 9 to 23 were approved by the Board of Directors on 23 July 2007 and were signed on its behalf by



Professor M Hulme
Director

Merseyside Special Investment Fund Limited

Consolidated cash flow statement for the year ended 31 March 2007

	Notes	2007 £	2006 £
Net cash outflow from continuing operating activities	21	(16,050,292)	(10,159,556)
Returns on investments and servicing of finance			
Interest received		1,391,592	1,869,342
Interest paid		-	(20,720)
		<u>1,391,592</u>	<u>1,848,622</u>
Capital expenditure and financial investments			
Equity investments made		(65,103)	(22,260)
Acquisitions and disposals	22	-	(176,350)
Fixed assets acquired		(11,462)	(35,621)
Fixed assets disposals		-	2,626
Loan repayments received		<u>14,565</u>	<u>369,063</u>
		<u>(62,000)</u>	<u>137,458</u>
Net cash (outflow) before financing		<u>(14,720,700)</u>	<u>(8,173,476)</u>
ERDF Cash			-
Financing			
Decrease in loans	24	<u>-</u>	<u>(826,500)</u>
Decrease in cash in the year		<u>(14,720,700)</u>	<u>(8,999,976)</u>

All cash held by the investment companies identified in note 10(b), amounting to £16,639,727 is restricted from being transferred to any other part of the Group

Included within cash is £500,000 that would be due to Barclays Bank Plc if the Liverpool Seed Fund Limited Partnership were unable to fulfil its obligations and repay all of the outstanding loan facility

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007

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 the balance of grants received are carried on the balance sheet as deferred income. Grants are 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 2007 (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 2007 (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

	2007 £	2006 £
Grants and contributions		
- ERDF	778,792	429,914
- Other contributions	363,910	312,566
	<u>1,142,702</u>	<u>742,480</u>

Income arises in the United Kingdom

Included within grants and contributions is £Nil (2006 £Nil) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

3 Investment income

	2007 £	2006 £
Profit on redemption of investments	48,596	252,500
Income from loan investments	10,748	33,831
	<u>59,344</u>	<u>286,331</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

4 Surplus on ordinary activities before taxation

	2007 £	2006 £
Surplus on ordinary activities before taxation is stated after charging		
Amounts written off fixed asset investments (note 10a)	72,222	11,400
Movement in provision for impairment of fixed asset investments (note 10a)	(86,787)	(117,002)
Amounts provided against investments in Limited Partnerships (note 10b)	15,837,000	10,155,000
Release of capital grants (note 10b)	(15,537,000)	(10,155,000)
Amortisation of intangible fixed assets	22,713	45,426
Depreciation of tangible fixed assets	22,747	24,652
Auditors' remuneration for		
Audit fees		
- Fees payable to company auditor for the audit of parent company and consolidated accounts	18,270	17,150
Non audit services		
Fees payable to the company's auditor and its associates for other services		
- The audit of the company's subsidiaries pursuant to legislation	10,500	10,400
- Other services pursuant to legislation	2,000	1,900
- Tax services	41,000	29,500
- Other	5,650	4,225
Operating lease costs-land and buildings	209,763	175,460

5(a) Taxation – ordinary activities

	2007 £	2006 £
UK Corporation tax at 30% (2005 30%)	-	-
Deferred tax	22,465	34,764
	22,465	34,764

5(b) Factors affecting tax charge for period

	2007 £	2006 £
Surplus on ordinary activities before tax	1,217,528	1,859,900
Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2006 30%)	365,258	557,970
Effects of		
(Income)/expenses not deductible for tax purposes	(751,543)	11,123
Allocation from partnerships	1,151,744	(349,407)
Depreciation in advance of capital allowances	(874)	(979)
Unrelieved taxation losses carried forward	-	355,621
Income accrued but taxable in later accounting periods	(749,658)	(523,932)
Decrease in short term timing differences	(14,928)	(50,398)
Adjustments to tax charge in respect of previous periods	1	2
Current tax charge for the period (note 5(a))	-	-

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

5 (c) Deferred taxation

	2007 £	2006 £
Excess of depreciation over tax allowances	2,452	-
Origination and reversal of timing differences	9,670	117,873
Adjustments in respect of previous periods	10,343	(83,109)
	<u>22,465</u>	<u>34,764</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 £20.9 million (2006: £17.5 million) (company £4.2 million (2006: £4.5 million) at 31 March 2007, which have yet to be agreed with the HMRC.

6 Directors' emoluments

	2007 £	2006 £
Aggregate emoluments	67,715	113,950
Sums paid to third parties for directors' services	44,138	42,421
	<u>111,853</u>	<u>156,371</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

	2007 £	2006 £
Wages & Salaries	1,752,117	1,734,978
Social Security Costs	178,494	172,780
Other Pension Costs	69,966	63,598
	<u>2,000,577</u>	<u>1,959,356</u>

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

The company operates two defined contribution pension schemes.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

8 Intangible assets (Group)

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

	£
Cost	
At 1 April 2006 and 31 March 2007	<u>227,130</u>
Amortisation	
At 1 April 2006	199,417
Charge for the year	<u>27,713</u>
At 31 March 2007	227,130
Net book amount at 31 March 2007	<u>-</u>
 Net book amount at 31 March 2006	 <u>27,713</u>

9 Tangible fixed assets

Office
Equipment

	£
Cost or valuation	
At 1 April 2006	177,762
Additions during the year	<u>11,462</u>
At 31 March 2007	<u>189,224</u>
Accumulated depreciation	
At 1 April 2006	98,237
Provided during year	<u>22,746</u>
At 31 March 2007	<u>120,983</u>
 Net book value at 31 March 2007	 <u>68,241</u>
 Net book value at 31 March 2006	 <u>79,525</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

10 Fixed asset investments

Group

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

	Equity £	Non-Equity £	Loan/Equity Investments £
Cost			
At 1 April 2006	22,260	2,932,656	2,954,916
Additions in year	65,103	-	65,103
Loan repayments	-	(14,565)	(14,565)
At 31 March 2007	87,363	2,918,091	3,005,454
Amounts written off			
At 1 April 2006	-	2,624,530	2,624,530
Movement in year	-	72,222	72,222
At 31 March 2007	-	2,696,752	2,696,752
Amounts provided for			
At 1 April 2006	-	308,126	308,126
Movement in year	-	(86,787)	(86,787)
At 31 March 2007	-	221,339	221,339
Net book value			
At 31 March 2007	87,363	-	87,363
At 31 March 2006	22,260	-	22,260

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

	Investments £	Capital grants Recognised £
Cost		
Balance brought forward	32,024,373	(32,024,373)
Movement during year	15,837,000	(15,837,000)
Balance carried forward	47,861,373	(47,861,373)
Amounts written off/released		
Balance brought forward	(32,024,373)	32,024,373
Movement during year	(15,837,000)	15,837,000
Balance carried forward	(47,861,373)	47,861,373
Net book value at 31 March 2007	-	-
Net book value at 31 March 2006	-	-

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 2007 (continued)

(c) Investments - Other

	£
At 1 April 2006 and 31 March 2007	<u>294,050</u>

Company

	£
At 1 April 2006 and 31 March 2007	<u>19</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	
	2007	2006	2007	2006
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	828,038	795,858	197,750	204,737
Amounts owed by group undertakings	-	-	782,920	879,288
Other taxation and social security	15,540	39,120	7,409	678
Prepayments and accrued income	98,908	87,089	4,288	-
	<u>942,084</u>	<u>922,067</u>	<u>992,367</u>	<u>1,084,703</u>
Amounts falling due after one year:				
Trade debtors	39,011	16,783	39,011	16,783
Total debtors	<u>981,095</u>	<u>938,850</u>	<u>1,031,378</u>	<u>1,101,486</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (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 amount £200,000 owed by Merseyside Special Investment Mezzanine Fund Ltd which has an interest rate of base rate plus 2.5%

12 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Amounts falling due within one year:				
Trade creditors	115,976	74,878	-	-
Amounts owed to group undertakings	94,932	94,932	327,163	320,484
Other taxation and social security	68,545	57,417	-	-
Accruals	129,003	209,106	38,166	63,404
	<u>408,456</u>	<u>436,333</u>	<u>365,329</u>	<u>383,888</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	
	2007	2006	2007	2006
	£	£	£	£
Loans repayable within five years (Liverpool Ventures Limited)	<u>100,000</u>	<u>100,000</u>	-	-

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

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (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	
	2007	2006	2007	2006
	£	£	£	£
At start of period	173,100	138,336	-	(2,810,603)
Excess of depreciation over tax allowance	2,452	-	(2,617)	3,564
Other timing differences	972,689	117,873	1,722,207	491,331
Losses	(779,573)	(83,109)	(5,528,516)	(616,483)
At end of period	<u>195,565</u>	<u>173,100</u>	<u>(3,808,926)</u>	<u>(2,932,191)</u>

15 Accruals and deferred income

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Capital grants received in advance	<u>16,639,727</u>	<u>32,476,727</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 2007 the company had three members (2006: 3).

17 Accumulated reserve

	Group	Company
	£	£
Income and expenditure account		
At 1 April 2006	4,849,076	1,676,972
Surplus for the year	<u>1,195,063</u>	<u>(128,608)</u>
At 31 March 2007	<u>6,044,139</u>	<u>1,548,364</u>

18 Capital commitments

The Group had capital commitments of £Nil at the year end (2006: £Nil).

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

19 Financial commitments

At 31 March 2007, the Group had annual commitments under non-cancellable operating leases as set out below

	2007 Land and Buildings £	2006 Land and Buildings £
Expiring: Between two and five years	<u>209,682</u>	<u>175,460</u>

20 Contingent liabilities

Merseyside Special Investment Fund 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 effects of these guarantees are uncertain and cannot be quantified.

Merseyside Special Investment Fund Limited, through a subsidiary, has agreed that if in the event of liquidation or termination of the Merseyside Special Investment Venture Fund No 3 Limited Partnership and on full realisation of its assets, the Ordinary Limited Partner receives less than £2,000,000 from the liquidation agents that Merseyside Special Investment Fund Limited through its subsidiary will make payment of a sum equal to 50% of the shortfall up to a maximum payment of £1,000,000.

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

	2007 £	2006 £
Operating deficit	(196,292)	(5,505)
Depreciation	22,746	24,652
Goodwill amortisation	22,713	45,426
Amounts written back to investments	(14,565)	(100,602)
(Increase)/decrease in debtors under 1 year	(20,017)	10,319
(Decrease)/increase in creditors	(27,877)	21,154
Decrease in capital grants received in advance	<u>(15,837,000)</u>	<u>(10,155,000)</u>
Net cash outflow from operating activities	<u>(16,050,292)</u>	<u>(10,159,556)</u>

22 Acquisitions and Disposals

	2007 £	2006 £
Acquisitions	-	(176,350)
Redemption of partnership interests	<u>-</u>	<u>-</u>
Net cash outflow for acquisitions and disposals	<u>-</u>	<u>(176,350)</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2007 (continued)

23 Reconciliation of net cash flow to movement in net debt

	2007 £	2006 £
Decrease in cash in the year	(14,743,200)	(8,999,976)
Cash outflow from change in debt	-	826,500
Change in net debt resulting from cash flows	(14,743,200)	(8,173,476)
Net debt at 1 April 2006	36,577,838	44,751,314
Net debt at 31 March 2007	21,834,638	36,577,838

24 Analysis of net debt

	At 1 April 2006 £	Cashflow £	At 31 March 2007 £
Net Cash			
Cash at bank and in hand	36,677,838	(14,743,200)	21,934,638
Debt due after 1 year	(100,000)	-	(100,000)
	36,577,838	(14,743,200)	21,834,638

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