



Merseyside Special Investment Fund

Merseyside Special Investment Fund Limited

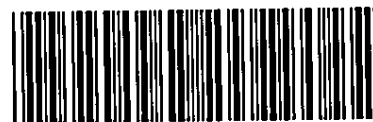
(A Company limited by guarantee and not having any share capital)

Annual Report and Financial Statements

for the year ended 31 March 2008

Registered Number: 2981031

THURSDAY



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Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2008

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Merseyside Special Investment Fund Limited

Directors and Company information

Directors

Mr R Swainson
Professor M Hulme
Mr T Atherton
Mr R Morris
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 2008

The past twelve months has been a busy and extremely productive period for the Funds with the end of the financial year 07/08 proving our most successful to date, and the Funds moving significantly closer towards their target of full investment by 31st December 2008

Around 1,200 businesses have now benefited from MSIF finance, 6,217 jobs have been created, a further 4,490 jobs have been secured and over £200m private sector leverage has been brought into the region on the back of these investments. These figures underline the genuine impact the Fund has made and the foundations it has built for a bright economic future for Merseyside

The Small Firms Fund has made 441 investments totalling £14 899m and the financial year 07/08 marks its most successful to date. In the Mezzanine Fund a total of 46 transactions have been successfully completed and the fund has invested £15 640m. The Venture Fund has invested £21 708m in 26 businesses. The Liverpool Seed Fund has invested £14 396m in a total of 60 businesses and has committed a further £1 654m. A number of syndicated investments between the different MSIF funds have occurred and once again demonstrate MSIF's ability to offer a range of financial solutions and ensure the best package is delivered both for the business and MSIF.

Post year end the successful exit and simultaneous investment into one of the Venture Fund's existing portfolio companies has provided MSIF with both its most significant exit to date and also with its largest single investment. This deal is an example of our ability to foster and nurture great opportunities, realising value for all our investors and demonstrating the long term commercial success of the business.

In addition to finance, MSIF's Money with Management programme continues to provide a valuable support package to MSIF clients. Access to a range of benefits enable these businesses to learn and develop, and maximises their chance of success.

Alliance Fund Managers - MSIF's in-house fund management company has, again, successfully managed the funds and portfolio well and ensures the Fund's sustainability through quality deal flow. There has been a heightened emphasis on marketing and networking at all levels and despite what might be considered 'difficult' times, deal flow has remained steady and of a good quality.

AFM's executive directors have continued to motivate and lead the team well and have successfully instilled the commercial approach necessary to ensure financial returns whilst at the same time delivering the objectives attached to European money. Barclays, MSIF's private sector partners in Small Firms Fund 1 and Mezzanine Fund 1, have now been fully repaid. Pilkingtons and Mersey Pension Fund – the private sector investors in Venture Fund 1 have also received their full capital repayment.

In addition, AFM will be tendering to secure new European funds from the NWDA for it to manage when the current funds cease investing in December 2008. The new fund will cover the wider North West region including Merseyside and begin investing from 2009. This process is still in the very early stages but I am hopeful that it will be completed successfully and that the transition to new funds for the region will run smoothly.

Merseyside Special Investment Fund Limited

Chairman's Statement

For the year ended 31 March 2008 (continued)

Liverpool Ventures, the MSIF subsidiary that was set up to assist businesses applying to and receiving investment from MSIF's Seed Fund continues to run well under managing director, Malcolm Stewart. The partnership between Liverpool Ventures and AFM has proved very effective and the support it provides to the very early stage businesses the Liverpool Seed Fund invests in has been extremely valuable.

MSIF's achievements were recognised when the Fund was awarded 'Fund of the Year' at regional business publication's North West Dealmakers Awards, an accolade which highlights the Fund's reputation within the North West corporate finance and business community.

A new joint initiative we have launched with Liverpool John Moores University will see the MSIF Liverpool Seed Fund co-investing with LJMU to provide Proof of Concept funding to support the commercial development of leading-edge technologies emerging from the University. We believe that there is a real shortage of finance to support ideas coming out of academia and that with the right package of funding and advice successful businesses will be created.

Another exciting project is MSIF's investment into ULive, a new company formed by the University of Liverpool to commercialise intellectual property generated by its research activities. The University will now transfer all existing and future IP rights to ULive for a minimum period of 15 years enabling the company to exploit the IP through the development of spin out businesses, and the licensing and sale of technology. MSIF's Liverpool Seed Fund will take a 25% stake in the business and the University will retain the balance.

MSIF Partners continues to operate effectively under the direction of MSIF Director Roy Swainson 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 a range of initiatives to support our region's SMEs.

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 2008

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2008

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. At the end of the 2007 Financial Year, The Mersey Partnership replaced the Bank of England as guarantor.

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 twelfth 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 £814,088 (profit 2007 £1,195,063) 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 Alliance Fund Managers Ltd are exploring opportunities to raise new investment funds in order to provide continuity of investment for the start of 2009.

Subsequent to the year end the company raised the sum of £2.29m by means of distributions and contributions towards the successor fund.

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2008 (continued)

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 be 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.

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 6,217 and 4,490 jobs respectively.

Directors

The directors during the year ended 31 March 2008, were as follows:

Mr R Swainson
Professor M Hulme
Mr T Atherton
Mr R Morris
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 2008 (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

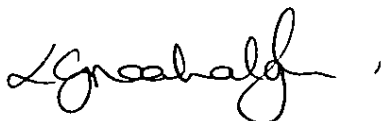
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding 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
21 July 2008

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 2008 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.

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 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, 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 parent company's affairs as at 31 March 2008 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
21 July 2008

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2008

	Notes	2008 £	2007 £
Income			
Grants & contributions	2	1,476,181	1,142,702
Fees and other income		2,831,394	2,565,315
Investment income	3	95,771	59,344
		<u>4,403,346</u>	<u>3,767,361</u>
Administrative and investment expenses		(4,481,443)	(3,978,218)
Amounts written off investments	9 (a)	-	(72,222)
Movement in provision for impairment of fixed asset investments	9 (a)	9,000	86,787
		<u>(69,097)</u>	<u>(196,292)</u>
Operating (deficit) before interest			
Interest receivable on bank deposits		865,642	1,391,592
Interest payable on bank loans and overdrafts		-	-
Other interest receivable		24,423	22,228
		<u>820,968</u>	<u>1,217,528</u>
Surplus on ordinary activities before taxation	5		
Taxation on ordinary activities	5(a)	(6,880)	(22,465)
Retained surplus for the financial year	16	<u>814,088</u>	<u>1,195,063</u>

All operations are continuing

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

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

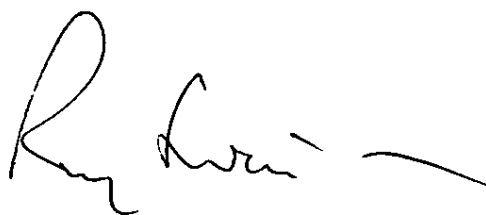
The notes on pages 12 to 23 form an integral part of these financial statements

Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2008

	Notes	Group 2008 £	2007 £	Company 2008 £	2007 £
Fixed assets					
Tangible assets	8	65,652	68,241	-	-
Investments- loans	9 (a)	87,363	87,363	-	-
Investments- other	9 (c)	294,050	294,050	590,284	293,769
		<u>447,065</u>	<u>449,654</u>	<u>590,284</u>	<u>293,769</u>
Current assets					
Debtors	10	873,281	981,095	563,365	1,031,378
Cash at bank and in hand		<u>11,123,226</u>	<u>21,957,138</u>	<u>1,900,506</u>	<u>587,678</u>
		<u>11,996,507</u>	<u>22,938,233</u>	<u>2,463,871</u>	<u>1,619,056</u>
Creditors: amounts falling due within one year	11	(5,282,900)	(408,456)	(420,235)	(365,329)
Net current assets		<u>6,713,607</u>	<u>22,529,777</u>	<u>2,043,636</u>	<u>1,253,727</u>
Total assets less current liabilities		<u>7,160,672</u>	<u>22,979,431</u>	<u>2,633,920</u>	<u>1,547,496</u>
Creditors: amounts falling due after more than one year	12	(100,000)	(100,000)	-	-
Provision for liabilities and charges	13	(202,445)	(195,565)	-	-
Accruals and deferred income	14	-	(16,639,727)	-	-
Net assets		<u>6,858,227</u>	<u>6,044,139</u>	<u>2,633,920</u>	<u>1,547,496</u>
Reserves					
Accumulated reserves	16	<u>6,858,227</u>	<u>6,044,139</u>	<u>2,633,920</u>	<u>1,547,496</u>

The financial statements on pages 9 to 23 were approved by the Board of Directors on 21 July 2008 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 2008

	Notes	2008 £	2007 £
Net cash outflow from continuing operating activities	20	(11,675,590)	(16,050,292)
Returns on investments and servicing of finance			
Interest received		865,642	1,391,592
		<u>865,642</u>	<u>1,391,592</u>
Capital expenditure and financial investments			
Equity investments made		-	(65,103)
Fixed assets acquired		(32,964)	(11,462)
Fixed assets disposals		-	-
Loan repayments received		9,000	14,565
		<u>(23,964)</u>	<u>(62,000)</u>
Net cash (outflow) before financing		<u>(10,833,912)</u>	<u>(14,720,700)</u>
Decrease in cash in the year		<u>(10,833,912)</u>	<u>(14,720,700)</u>

All cash held by the investment companies identified in note 10(b), amounting to £4,889,818 (2007 £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 2008

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 2008 (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 2008 (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

	2008 £	2007 £
Grants and contributions		
- ERDF	1,151,661	778,792
- Other contributions	324,520	363,910
	<u>1,476,181</u>	<u>1,142,702</u>

Income arises in the United Kingdom

3 Investment income

	2008 £	2007 £
Dividends	44,298	-
Profit on redemption of investments	41,500	48,596
Income from loan investments	9,973	10,748
	<u>95,771</u>	<u>59,344</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2008 (continued)

4 Surplus on ordinary activities before taxation

	2008 £	2007 £
Surplus on ordinary activities before taxation is stated after charging		
Amounts written off fixed asset investments (note 10a)	-	72,222
Movement in provision for impairment of fixed asset investments (note 10a)	(9,000)	(86,787)
Amounts provided against investments in Limited Partnerships (note 10b)	11,749,909	15,837,000
Release of capital grants (note 10b)	(11,749,909)	(15,537,000)
Amortisation of intangible fixed assets	-	22,713
Depreciation of tangible fixed assets	21,914	22,747
Loss on disposal of fixed assets	13,669	-
Auditors' remuneration for		
Audit fees		
- Fees payable to company auditor for the audit of parent company and consolidated accounts	19,160	18,270
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	10,645	10,500
- Other services pursuant to legislation	2,100	2,000
- Tax services	44,700	41,000
- Other	4,700	5,650
Operating lease costs-land and buildings	209,722	209,763

5(a) Taxation – ordinary activities

	2008 £	2007 £
UK Corporation tax at 30% (2007 30%)	-	-
Deferred tax	6,880	22,465
	<u>6,880</u>	<u>22,465</u>

5(b) Factors affecting tax charge for period

	2008 £	2007 £
Surplus on ordinary activities before tax	820,968	1,217,528
Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2006 30%)	246,290	365,258
Effects of		
Income not chargeable for tax purposes	(2,288,051)	(751,543)
Allocation from partnerships	2,840,560	1,151,744
Depreciation in advance of capital allowances	3,075	(874)
Unrelieved taxation losses carried forward	-	-
Income accrued but taxable in later accounting periods	(802,999)	(749,658)
Decrease in short term timing differences	1,125	(14,928)
Adjustments to tax charge in respect of previous periods	-	1
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 2008 (continued)

5 (c) Deferred taxation

	2008	2007
	£	£
Excess of depreciation over tax allowances	(1,142)	2,452
Origination and reversal of timing differences	60,160	9,670
Adjustments in respect of previous periods	(52,138)	10,343
	<u>6,880</u>	<u>22,465</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 £30.3 million (2007: £20.9 million) (company £4.1 million (2007: £4.2 million)) at 31 March 2008, which have yet to be agreed with the HMRC.

6 Directors' emoluments

	2008	2007
	£	£
Aggregate emoluments	52,283	67,715
Sums paid to third parties for directors' services	76,250	44,138
	<u>128,533</u>	<u>111,853</u>

The amount in respect of sums paid to third parties relates to amounts payable to Liverpool Chamber of Commerce, Knowledge Interventuring Ltd (now known as Michael Hulme Private Office Ltd), Atherton Consulting and The Mersey Partnership for the services of Messrs Jack Stopforth, Michael Hulme, Terence Atherton and Roy Morris respectively.

7 Staff costs

	2008	2007
	£	£
Wages & Salaries	1,869,873	1,752,117
Social Security Costs	199,122	178,494
Other Pension Costs	69,673	69,966
	<u>2,138,668</u>	<u>2,000,577</u>

The average number of employees during the year was 36 (2007: 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 2008 (continued)

8 Tangible fixed assets	Office Equipment
Cost or valuation	£
At 1 April 2007	189,224
Additions during the year	32,964
Disposals during the year	<u>(58,060)</u>
At 31 March 2008	<u>164,128</u>
Accumulated depreciation	
At 1 April 2007	120,983
Provided during year	21,884
Disposals during year	<u>(44,391)</u>
At 31 March 2008	<u>98,476</u>
Net book value at 31 March 2008	<u>65,652</u>
Net book value at 31 March 2007	<u>68,241</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2008 (continued)

9 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 2007	87,363	2,918,091	3,005,454
Additions in year	-	-	-
Loan repayments	-	(9,000)	(9,000)
At 31 March 2008	87,363	2,909,091	2,996,454
Amounts written off			
At 1 April 2007	-	2,696,752	2,696,752
Movement in year	-	-	-
At 31 March 2008	-	2,696,752	2,696,752
Amounts provided for			
At 1 April 2007	-	221,339	221,339
Movement in year	-	(9,000)	(9,000)
At 31 March 2008	-	212,339	212,339
Net book value			
At 31 March 2008	87,363	-	87,363
At 31 March 2007	87,363	-	87,363

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

	Investments £	Capital grants Recognised £
Cost		
Balance brought forward	47,861,373	(47,861,373)
Movement during year	11,749,909	(11,749,909)
Balance carried forward	59,611,282	(59,611,282)
Amounts written off/released		
Balance brought forward	(47,861,373)	47,861,373
Movement during year	(11,749,909)	11,749,909
Balance carried forward	(59,611,282)	59,611,282
Net book value at 31 March 2008	-	-
Net book value at 31 March 2007	-	-

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 2008 (continued)

(c) Investments - Other

	£
At 1 April 2007 and 31 March 2008	<u>294,050</u>

Company

	£
At 1 April 2007	<u>293,769</u>
Additions	<u>296,515</u>
At 31 March 2008	<u>590,284</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
Alliance Fund Managers Limited	Management Company

Merseyside Special Investment Fund Limited is the sole guarantor of Alliance Fund Managers (Holdings) Limited

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

10 Debtors

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	721,580	828,038	185,000	197,750
Amounts owed by group undertakings	129	-	290,703	782,920
Other taxation and social security	3,446	15,540	4,582	7,409
Prepayments and accrued income	84,692	98,908	19,646	4,288
	<u>809,847</u>	<u>942,084</u>	<u>499,931</u>	<u>992,367</u>
Amounts falling due after one year				
Trade debtors	<u>63,434</u>	<u>39,011</u>	<u>63,434</u>	<u>39,011</u>
Total debtors	<u>873,281</u>	<u>981,095</u>	<u>563,365</u>	<u>1,031,378</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2008 (continued)

10 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 £110,000 owed by Merseyside Special Investment Mezzanine Fund Ltd which has an interest rate of base rate plus 2.5%

11 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Amounts falling due within one year:				
Trade creditors	83,874	115,976	-	-
Amounts owed to group undertakings	94,932	94,932	386,735	327,163
Other taxation and social security	69,200	68,545	-	-
Capital grants received in advance	4,889,818	-	-	-
Accruals	145,076	129,003	33,500	38,166
	<u>5,282,900</u>	<u>408,456</u>	<u>420,235</u>	<u>365,329</u>

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

12 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
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

13 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	
	2008	2007	2008	2007
	£	£	£	£
At start of period	195,565	173,100	(3,808,926)	-
Excess of depreciation over tax allowance	(1,142)	2,452	(4,844)	(2,617)
Other timing differences	60,160	972,689	(36,410)	1,722,207
Losses	(52,138)	(779,573)	(2,137,849)	(5,528,516)
At end of period	<u>202,445</u>	<u>195,565</u>	<u>(5,988,029)</u>	<u>(3,808,926)</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2008 (continued)

14 Accruals and deferred income

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Capital grants received in advance	-	16,639,727	-	-

15 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 2008 the company had three members (2007: 3).

16 Accumulated reserve

	Group	Company
	£	£
Income and expenditure account		
At 1 April 2007	6,044,139	1,547,496
Surplus for the year	814,088	1,086,424
At 31 March 2008	<u>6,858,227</u>	<u>2,632,712</u>

17 Capital commitments

The Group had capital commitments of £Nil at the year end (2007: £Nil).

18 Financial commitments

At 31 March 2008, the Group had annual commitments under non-cancellable operating leases as set out below:

	2008	2007
	Land and Buildings	Land and Buildings
	£	£
Expiring		
Between two and five years	<u>209,722</u>	<u>209,682</u>

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2008 (continued)

19 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.

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

	2008 £	2007 £
Operating deficit	(69,097)	(196,292)
Depreciation	35,553	22,746
Goodwill amortisation	-	22,713
Amounts written back to investments	(9,000)	(14,565)
Decrease/(increase) in debtors under 1 year	132,237	(20,017)
Decrease in creditors	(15,374)	(27,877)
Decrease in capital grants received in advance	(11,749,909)	(15,837,000)
Net cash outflow from operating activities	(11,675,590)	(16,050,292)

21 Reconciliation of net cash flow to movement in net debt

	2008 £	2007 £
Change in net debt resulting from cash flows	(10,833,912)	(14,720,700)
Net debt at 1 April 2007	21,857,138	36,577,838
Net debt at 31 March 2008	11,023,226	21,857,138

22 Analysis of net debt

	At 1 April 2007 £	Cashflow £	At 31 March 2008 £
Net Cash			
Cash at bank and in hand	21,957,138	(10,833,912)	11,123,226
Debt due after 1 year	(100,000)	-	(100,000)
	21,857,138	(10,833,912)	11,023,226

Merseyside Special Investment Fund Limited**Notes to the financial statements
for the year ended 31 March 2008 (continued)****23 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