



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 2003

Registered Number: 2981031



Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2003

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

Merseyside Special Investment Fund Limited

Directors and Company information

Mr M Davis
Lord Alton of Liverpool
Mr S Edwards – appointed 20 December 2002
Mr N Kemsley
Mrs A Redmond
Mr H Rosser - resigned 31 March 2003
Mr A Strachan – appointed 1 November 2002
Mr R Swainson
Mr M Taylor – resigned 20 December 2002

Secretary

DWF Secretarial Services Limited

Registered Office

5th Floor
Cunard Building
Pier Head
Liverpool
L3 1DS

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Princes Parade
St Nicholas Place
Liverpool
L3 1QJ

Principal bankers

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

Solicitors

Davies Wallis Foyster
5 Castle Street
Liverpool
L2 4XE

Merseyside Special Investment Fund Limited

Chairman's statement for the year ended 31 March 2003

The past twelve months has seen much change and encouraging progress within MSIF. Since securing the new £80m funds in 2001, activity across all three funds has been markedly increased.

Ensuring the funds sustainability through quality deal flow remains the highest priority. There has been a heightened emphasis on marketing and networking at all levels to address this and early indications show that this focus is delivering results.

To date the Funds have made 97 investments totalling £7.6m from the second round of funding. This has brought in £20.6m in private sector leverage and created 140 jobs preserving a further 400. Whilst our targets over five years are challenging, this figure is satisfactory given the early stage of our investment period and the continuing growth of deal flow.

MSIF also continues to manage the investments from the first round of funds to realisation, where £34m has been invested in 600 businesses creating and preserving 6,663 jobs, and every effort is being made to encourage the investee businesses to grow and develop.

The creation of MSIF's in-house management company AFM, which runs under the direction of Mark Fuller has been a great success. The transfer of all existing staff and integration of around 10 talented new recruits has resulted in a more cohesive structure and consistent approach to investing and AFM staff are now operating well as a team with the same culture and values. The necessary commercial approach is being taken to ensure financial returns and thereby the future of the fund, but there is also a recognition of the wider regeneration objectives of MSIF.

The Small Firms Fund continues to perform well and to date has exceeded targets. This year has seen the launch of its BOSS programme - Business Owners Support Service – formerly referred to as the Money with Management Scheme. Its investee businesses are now benefiting from a comprehensive schedule of networking events and seminars. In addition the bank of mentors has been recruited and that programme has already assisted a number of our investee business. A website where businesses can network online and access information on all aspects of running a business is due to be launched shortly.

Discussion are progressing to create a number of special partner funds in addition to the existing woman's only POWER fund, the Community Fund, Granby Toxteth Fund, South Sefton loan fund and the Speke Garston fund (which was created this year). It is expected that this will positively impact on deal flow in some areas and assist in raising the profile of the fund.

The first two Venture Funds and the first Mezzanine Fund are now fully invested and our fund managers are actively engaged in maximising the value of these investments.

In the new Venture Fund six transactions have been successfully completed this year, three of which involved bringing high technology companies into Merseyside from outside the area. These investments were all syndicated and averaged in total £1m each.

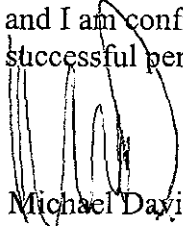
The new Mezzanine Fund is also on target and has completed 12 deals this year a number in conjunction with the Venture Fund.

Merseyside Special Investment Fund Limited

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

MSIF Partners continues to operate highly effectively under the direction of Roy Swainson. Regular communication with key organisations has contributed greatly to relationship building and raising awareness of MSIF. Discussions have also been progressing between MSIF and the Universities on the development of funds and facilities to encourage new technology based businesses.

To conclude I would like to thank all those in the MSIF Group for their work over the challenging last twelve months when so much has been achieved in building the organisation for the future. The Fund has come a long way since its inception in 1996 and I am confident that the efforts put in have paved the way for an exciting and successful period ahead.



Michael Davis
Chairman

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2003

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2003.

Merseyside Special Investment Fund Limited is a company limited by guarantee and was established in 1996 by the Bank of England, Liverpool Chamber of Commerce and representatives of the local community including Local Authorities, Training and Enterprise Councils, Business Links and Higher Education Authorities (MSIF Partners Limited) who act as guarantors.

Principal activities

The Group's principal activity is to invest venture and loan capital investment funds in small and medium sized enterprises (SMEs) and provide support and monitoring of those investments, thereby assisting to regenerate business in the region. The Company is supported and part-financed in this project by European Regional Development Funding via the European Community's Objective 1 Programme administered by the Government Office for the North West.

Business review

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

Financial results

The deficit for the year of £371,870 (surplus 2002: £779,470) has been transferred to reserves.

Directors

The directors during the year ended 31 March 2003, were as follows:

Mr M Davis
 Lord Alton of Liverpool
 Mr S Edwards – appointed 20 December 2002
 Mr N Kemsley
 Mrs A Redmond
 Mr H Rosser - resigned 31 March 2003
 Mr A Strachan – appointed 1 November 2002
 Mr R Swainson
 Mr M Taylor – resigned 20 December 2002

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2003 (continued)

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

Directors' responsibilities

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

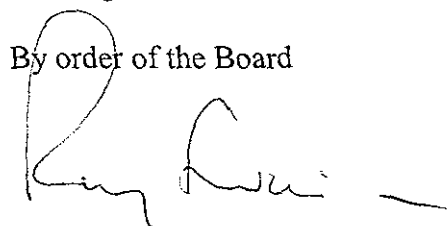
- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare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

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

Auditors

PricewaterhouseCoopers resigned on 15 April 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as 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
18 July 2003

Merseyside Special Investment Fund Limited

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

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

Merseyside Special Investment Fund Limited

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

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2003 and of the result and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool
18 July 2003

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2003

| | Notes | 2003 £ | 2002 £ |
|---|-------|------------------|------------------|
| Income | | | |
| Grants & contributions | 2 | 602,449 | 3,140,764 |
| Fees and other income | | 3,041,466 | 3,177,507 |
| Investment income | 3 | <u>462,581</u> | <u>604,329</u> |
| | | 4,106,496 | 6,922,600 |
| Administrative and investment expenses | | (4,476,910) | (5,556,309) |
| Amounts written off investments | 4 | (482,831) | (456,745) |
| Movement in provision for impairment of fixed asset investments | 4 | <u>(484,428)</u> | <u>(145,722)</u> |
| Operating (deficit)/surplus before interest | | (1,337,673) | 763,824 |
| Income from bank deposits | | 1,150,499 | 419,124 |
| Interest payable on bank loans and overdrafts | | <u>(184,696)</u> | <u>(374,060)</u> |
| (Deficit)/surplus on ordinary activities before taxation | 4 | (371,870) | 808,888 |
| Taxation on ordinary activities | 5 | (58,009) | (29,418) |
| Retained (deficit)/surplus for the financial year | 17 | <u>(429,879)</u> | <u>779,470</u> |

All operations are continuing.

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

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

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

Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2003

| | Notes | Group | | Company | |
|--|-------|---------------------|---------------------|------------------|--------------------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 8 | 158,991 | 204,417 | - | - |
| Tangible assets | 9 | 83,673 | 3,100 | - | - |
| Investments | 10 | 1,851,610 | 4,249,955 | 18 | 14 |
| Other investments | | 6,850 | 5,100 | - | - |
| | | <u>2,101,124</u> | <u>4,462,572</u> | <u>18</u> | <u>14</u> |
| Current assets | | | | | |
| Debtors | 11 | 1,112,586 | 3,674,903 | 850,489 | 2,928,276 |
| Cash at bank and in hand | | <u>32,346,004</u> | <u>33,417,362</u> | <u>26,518</u> | <u>43,788</u> |
| | | 33,458,590 | 37,092,265 | 877,007 | 2,972,064 |
| Creditors: amounts falling due within one year | 12 | <u>(826,255)</u> | <u>(2,069,510)</u> | <u>(753,700)</u> | <u>(2,328,038)</u> |
| Net current assets | | <u>32,632,335</u> | <u>35,022,755</u> | <u>123,307</u> | <u>644,026</u> |
| Total assets less current liabilities | | <u>34,733,459</u> | <u>39,485,327</u> | <u>123,325</u> | <u>644,040</u> |
| Creditors: amounts falling due after more than one year | 13 | <u>(3,227,500)</u> | <u>(5,744,500)</u> | - | - |
| Provision for liabilities and charges | 14 | <u>(137,379)</u> | <u>(79,370)</u> | - | - |
| Accruals and deferred income | 15 | <u>(30,046,091)</u> | <u>(31,909,091)</u> | - | - |
| Net assets | | <u>1,322,489</u> | <u>1,752,366</u> | <u>123,325</u> | <u>644,040</u> |
| Reserves | | | | | |
| Accumulated reserves | 17 | <u>1,322,489</u> | <u>1,752,366</u> | <u>123,325</u> | <u>644,040</u> |

The financial statements on pages 8 to 22 were approved by the Board of Directors on 18 July 2003 and were signed on its behalf by


M Davis
Director


N Kemsley
Director

Merseyside Special Investment Fund Limited

Consolidated cash flow statement for the year ended 31 March 2003

| | Notes | 2003 £ | 2002 £ |
|--|-------|---------------------------|--------------------------|
| Net cash flow from continuing operating activities | 20 | (842,067) | 31,458,645 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,150,499 | 419,124 |
| Interest paid | | <u>(184,696)</u> | <u>(374,060)</u> |
| | | 965,803 | 45,064 |
| Capital expenditure and financial investments | | | |
| Loan investments made | | (120,750) | (1,505,100) |
| Acquisitions and disposals | 21 | - | (168,690) |
| Fixed assets acquired | | (107,430) | (5,897) |
| Loan repayments received | | <u>1,550,086</u> | <u>1,388,386</u> |
| | | 1,321,906 | (291,301) |
| Net cash inflow before financing | | <u>1,445,642</u> | <u>31,212,408</u> |
| Financing | | | |
| Decrease in loans from the bank and partners | 23 | <u>(2,517,000)</u> | <u>(94,730)</u> |
| (Decrease)/increase in cash in the year | | <u><u>(1,071,358)</u></u> | <u><u>31,117,678</u></u> |

All cash held by the investment companies identified in note 10 c), amounting to £31,349,642 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 2003

1 Accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention. The Company has utilised the exemption afforded by section 230 of the Companies Act 1985 not to present its own income and expenditure account.

Grants, contributions and accumulated surplus

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

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

a) Revenue

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

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

b) Capital

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

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

Fees and other income

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

Merseyside Special Investment Fund Limited

1 Accounting policies (continued)

Basis of consolidation

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

Fixed asset investments

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

Investments in limited partnerships are stated at cost less provision for impairment (see note 10b)). In view of the high risk nature of the underlying investments of the limited partnerships in which the company's investments are made, and the preferred status on final distribution of partnership assets, an immediate and full provision for impairment of investment capital is made.

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

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

Depreciation

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

| | |
|------------------|---------|
| Office equipment | 5 years |
|------------------|---------|

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

Goodwill

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

Merseyside Special Investment Fund Limited

1 Accounting policies (continued)

Operating leases

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

Contributions towards refurbishments costs

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

Investment income

Investment income represents loan interest receivable on fixed asset investments.

Deferred taxation

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

2 Income

| | 2003 £ | 2002 £ |
|--------------------------|----------------|------------------|
| Grants and contributions | | |
| - ERDF | 263,686 | 2,994,795 |
| - Other contributions | 338,763 | 145,969 |
| | <u>602,449</u> | <u>3,140,764</u> |

Income arises in the United Kingdom.

Included within grants receivable is £111,735 (2002: £504,293) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

3 Investment income

| | 2003 £ | 2002 £ |
|-------------------------------------|----------------|----------------|
| Profit on redemption of investments | 106,500 | - |
| Income from loan investments | 356,081 | 604,329 |
| | <u>462,581</u> | <u>604,329</u> |

Merseyside Special Investment Fund Limited

4 Surplus on ordinary activities before taxation

| | 2003 £ | 2002 £ |
|--|--------------------|--------------------|
| Surplus on ordinary activities before taxation is stated after charging/(crediting): | | |
| Amounts written off fixed asset investments (note 10(a)) | 484,428 | 456,745 |
| Movement in provision for impairment of fixed asset investments (note 10(a)) | 482,831 | 145,722 |
| Amounts provided against investments in Limited Partnerships (note 10(b)) | 1,863,000 | 4,090,909 |
| Release of capital grants (note 10(b)) | <u>(1,863,000)</u> | <u>(4,090,909)</u> |
| | - | - |
| Amortisation of intangible fixed assets | 45,426 | 22,713 |
| Depreciation of tangible fixed assets | 26,857 | 9,502 |
| Auditors' remuneration for: | | |
| Audit fees (Company £45,500, 2002: £35,000) | 45,500 | 46,750 |
| Non audit services | 228,014 | 29,375 |
| Hire of office equipment – operating leases | 27,515 | 13,928 |
| Deferred income release (note 15) | - | (2,841) |

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

5(a) Taxation – ordinary activities

| | 2003 £ | 2002 £ |
|---------------------------------------|---------------|---------------|
| UK Corporation tax at 30% (2002: 30%) | 1 | (49,952) |
| Deferred tax | <u>58,008</u> | <u>79,370</u> |
| | <u>58,009</u> | <u>29,418</u> |

5(b) Factors affecting tax charge for period

| | 2003 £ | 2002 £ |
|---|------------------|-----------------|
| (Loss)/Profit on ordinary activities before tax | <u>(371,870)</u> | <u>808,890</u> |
| (Loss)/Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2002:30%) | (111,562) | 242,667 |
| Effects of: | | |
| Expenses/income not deductible for tax purposes | (92,485) | (1,010,062) |
| Non-taxable dividend income | - | (2,944) |
| Depreciation in (advance)/excess of capital allowances | (6,666) | 654 |
| Unrelieved taxation losses carried forward | 459,473 | 1,068,437 |
| Income accrued but taxable in later accounting periods | (180,006) | (323,402) |
| Decrease in short term timing differences | (68,752) | |
| Adjustments to tax charge in respect of previous periods | <u>(1)</u> | <u>(25,302)</u> |
| Current tax charge/(credit) for the period (note 5(a)) | 1 | (49,952) |

Merseyside Special Investment Fund Limited

5(c) Deferred taxation

| | 2003 £ | 2002 £ |
|--|---------------|---------------|
| Origination and reversal of timing differences | 53,992 | 48,023 |
| Adjustments in respect of previous periods | 4,016 | 31,347 |
| | <u>58,008</u> | <u>79,370</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 £9.8 million (2002: £7.5 million) (company £3.7 million (2002: £3.5 million)) at 31 March 2003, which have yet to be agreed with the Inland Revenue.

6 Directors' emoluments

| | 2003 £ | 2002 £ |
|--|----------------|----------------|
| Aggregate emoluments | 120,522 | 129,989 |
| Sums paid to third parties for directors' services | 43,482 | 47,597 |
| | <u>164,004</u> | <u>177,586</u> |

The amount in respect of sums paid to third parties relates to amounts payable to PLA Ltd, Hurlstone Management Limited, and Liverpool Chamber of Commerce for the provision of services by Mrs Redmond, Messrs Davis, and Edwards respectively (see note 24).

7 Staff costs

| | 2003 £ | 2002 £ |
|-----------------------|------------------|----------------|
| Wages & Salaries | 1,418,334 | 609,412 |
| Social security costs | 237,985 | 56,794 |
| Other Pension costs | 38,650 | 11,289 |
| | <u>1,694,969</u> | <u>677,495</u> |

The average number of employees during the year was 34 (2002: 19).

The company operates four defined contribution pension schemes.

Merseyside Special Investment Fund Limited

8 Intangible assets

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

| | £ |
|---|----------------|
| Cost | |
| At 1 April 2002 and 31 March 2003 | <u>227,130</u> |
| Amortisation | |
| At 1 April 2002 | 22,713 |
| Charge for the year | <u>45,426</u> |
| At 31 March 2003 | 68,139 |
| Net book amount at 31 March 2003 | <u>158,991</u> |
| Net book amount at 31 March 2002 | 204,417 |

9 Tangible fixed assets

| | Office Equipment |
|--|---------------------|
| Cost or valuation | £ |
| At 1 April 2002 | 176,345 |
| Additions during the year | <u>107,430</u> |
| At 31 March 2003 | <u>283,775</u> |
| Accumulated depreciation | |
| At 1 April 2002 | 173,245 |
| Provided during year | 26,857 |
| Disposals during the year | |
| At 31 March 2003 | <u>200,102</u> |
| Net book value at 31 March 2003 | <u>83,673</u> |
| Net book value at 31 March 2002 | <u>3,100</u> |

Merseyside Special Investment Fund Limited

10 Fixed asset investments

Group

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

| | Loan investments £ | Participating Interest Non-equity £ | Total £ |
|----------------------------|--------------------------|--|-------------------|
| Cost | | | |
| At 1 April 2002 | 10,645,000 | 70,000 | 10,715,000 |
| Additions | 119,000 | - | 119,000 |
| At 31 March 2003 | 10,764,000 | 70,000 | 10,834,000 |
| Repayments | | | |
| At 31 March 2003 | 5,673,867 | 70,000 | 5,743,867 |
| Amounts written off | | | |
| At 1 April 2002 | 1,989,542 | - | 1,989,542 |
| Movement in year | 484,428 | - | 484,428 |
| At 31 March 2003 | 2,473,970 | - | 2,473,970 |
| Provided for | | | |
| At 1 April 2002 | 281,722 | - | 281,722 |
| Movement in year | 482,831 | - | 482,831 |
| At 31 March 2003 | 764,553 | - | 764,553 |
| Net book value | | | |
| At 31 March 2003 | 1,851,610 | - | 1,851,610 |
| At 31 March 2002 | 4,249,955 | - | 4,249,955 |

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

| | Investments | Capital grants recognised |
|--|---------------------|---------------------------------|
| Cost | | |
| Balance brought forward | 12,592,009 | (12,592,009) |
| Movement during year | 1,863,000 | (1,863,000) |
| Balance carried forward | 14,455,009 | (14,455,009) |
| Amounts written off/released | | |
| Balance brought forward | (12,592,009) | 12,592,009 |
| Movement during year | (1,863,000) | 1,863,000 |
| Balance carried forward | (14,455,009) | 14,455,009 |
| Net book value at 31 March 2003 | - | - |
| Net book value at 31 March 2002 | - | - |

Merseyside Special Investment Fund Limited

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

(c) Investments - Other

| | |
|------------------|--------------|
| | £ |
| At 1 April 2002 | 5,100 |
| Additions | <u>1,750</u> |
| At 31 March 2003 | <u>6,850</u> |

Company

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| Interests in group undertakings at cost | <u>18</u> | <u>14</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 |

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.

11 Debtors

| | Group | | Company | |
|---|------------------|------------------|----------------|------------------|
| | 2003 £ | 2002 £ | 2003 £ | 2002 £ |
| Amounts falling due within one year: | | | | |
| Trade debtors | 1,082,878 | 369,594 | 441,745 | 437,409 |
| Amounts owed by group undertakings | - | - | 408,744 | 305,615 |
| Other debtors | - | 1,007,267 | - | 2,185,252 |
| Prepayments and accrued income | <u>29,708</u> | <u>2,298,042</u> | <u>-</u> | <u>-</u> |
| | <u>1,112,586</u> | <u>3,674,903</u> | <u>850,489</u> | <u>2,928,276</u> |

Merseyside Special Investment Fund Limited

12 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|----------------|------------------|----------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | £ | £ | £ | £ |
| Amounts falling due within one year: | | | | |
| Bank overdraft | - | 3,948 | - | - |
| Trade creditors | 244,299 | 645,075 | 31,843 | - |
| Amounts owed to group undertakings | - | - | 601,352 | 1,038,706 |
| Other taxation and social security | 104,336 | 15,807 | 2,088 | - |
| Other creditors | - | 1,185,533 | - | 1,184,846 |
| Accruals | 477,620 | 219,147 | 118,417 | 104,486 |
| | <u>826,255</u> | <u>2,069,510</u> | <u>753,700</u> | <u>2,328,038</u> |

13 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---|------------------|------------------|----------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | £ | £ | £ | £ |
| Bank loans repayable within five years (Merseyside Special Investment Mezzanine Fund Limited) | <u>3,227,500</u> | <u>5,744,500</u> | <u>-</u> | <u>-</u> |

The bank loans are repayable in July 2006.

At 31 March 2003 bank loans consist of borrowings under multiple drawdown loan facilities of £11 million under facility agreements entered into on 17 July, 26 July 1996 and 11 May 2001 for a period of ten years. The loans are secured by a fixed charge over loan investments made by subsidiary undertakings and covered by a guarantee executed by the European Investment Fund in favour of Barclays Bank plc. Interest is charged at the London Inter-Bank Offer Rate plus 0.9% and associated costs.

14 Deferred Taxation

Deferred tax assets have not been carried forward, as recovery in future years is not considered to be probable. The amount of the debtor not provided comprises:

| | Deferred Tax Provided | | Deferred Tax Not Recognised | |
|---|-----------------------|---------------|-----------------------------|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | £ | £ | £ | £ |
| At start of period | 79,370 | - | - | - |
| Excess of depreciation over tax allowance | - | - | (23,535) | (2,742) |
| Other timing differences | 51,291 | 465,295 | 539,201 | (353) |
| Losses | 6,718 | (385,925) | (2,564,082) | (1,756,641) |
| At end of period | <u>137,379</u> | <u>79,370</u> | <u>(2,048,416)</u> | <u>(1,759,736)</u> |

Merseyside Special Investment Fund Limited

15 Accruals and deferred income

| | Group | | Company | |
|--|-------------------|-------------------|-------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | £ | £ | £ | £ |
| Capital grants received in advance | <u>30,046,091</u> | <u>31,909,091</u> | <u>-</u> | <u>-</u> |
| Group and Company | | | 2003 | 2002 |
| | | | £ | £ |
| Contributions towards refurbishment costs | | | | |
| At 1 April | | | - | 2,841 |
| Amortised in the year | | | <u>-</u> | <u>(2,841)</u> |
| At 31 March | | | <u>-</u> | <u>-</u> |

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

16 Called-up share capital

The company does not have a share capital and is limited by guarantee. The liability of the members is limited to a minimum of £1 and a maximum of £100 each. At 31 March 2003 the company had three members (2002 : 3).

17 Accumulated surplus

| | Group | Company |
|---------------------------------------|------------------|------------------|
| | 2003 | 2003 |
| | £ | £ |
| Income and expenditure account | | |
| At 1 April 2002 | 1,752,368 | 644,040 |
| Deficit for the year | <u>(429,879)</u> | <u>(520,715)</u> |
| At 31 March 2003 | <u>1,322,489</u> | <u>123,325</u> |

18 Capital commitments

The Group had capital commitments of £Nil at the year end (2002: £Nil).

19 Financial commitments

At 31 March 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

| | 2003 | | 2002 | |
|----------------------------|--------------------|---------------|--------------------|---------------|
| | Land and buildings | Other | Land and buildings | Other |
| | £ | £ | £ | £ |
| Expiring: | | | | |
| Between two and five years | <u>-</u> | <u>27,515</u> | <u>-</u> | <u>13,928</u> |

Merseyside Special Investment Fund Limited

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

| | 2003 £ | 2002 £ |
|---|-------------|-------------|
| Operating (deficit)/surplus | (1,337,673) | 763,824 |
| Depreciation | 26,857 | 9,502 |
| Loss on disposal of fixed assets | - | 1,231 |
| Goodwill amortisation | 45,428 | 22,713 |
| Deferred income amortisation | - | (2,841) |
| Amounts written off investments | 967,259 | 602,467 |
| Decrease/(increase) in debtors | 2,562,317 | (1,914,208) |
| (Decrease)/increase in creditors | (1,243,255) | 66,866 |
| (Decrease)/increase in capital grants received in advance | (1,863,000) | 31,909,091 |
| Net cash (outflow)/inflow from operating activities | (842,067) | 31,458,645 |

21 Acquisitions and Disposals

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| Purchase of BCE Fund Managers Limited | - | (297,130) |
| Cash acquired with subsidiary | - | 128,440 |
| Net cash outflow for acquisitions and disposals | - | (168,690) |

22 Reconciliation of net cash flow to movement in net debt

| | 2003 £ | 2002 £ |
|--|-------------|-------------|
| (Decrease)/increase cash in the year | (1,071,358) | 31,117,678 |
| Cash inflow from change in debt | 2,520,948 | 174,100 |
| Change in net debt resulting from cash flows | 1,449,590 | 31,291,778 |
| Net debt at 1 April | 27,668,914 | (3,622,864) |
| Net debt at 31 March | 29,118,504 | 27,668,914 |

23 Analysis of net debt

| | At 1 April 2002 £ | Cashflow £ | At 31 March 2003 £ |
|--------------------------|----------------------|---------------|--------------------------|
| Net Cash | | | |
| Cash at bank and in hand | 33,417,362 | (1,071,358) | 32,346,004 |
| Bank overdrafts | (3,948) | 3,948 | - |
| Debt due after 1 year | (5,744,500) | 2,517,000 | (3,227,500) |
| | 27,668,914 | 1,449,590 | 29,118,504 |

Merseyside Special Investment Fund Limited

24 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.