

Merseyside Special Investment Fund

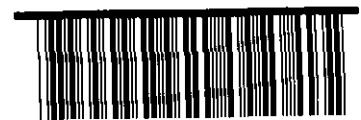
Merseyside Special Investment Fund Limited

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

Annual Report and Financial Statements

for the year ended 31 March 2004

Registered Number: 2981031



A13
COMPANIES HOUSE

A48LW2TQ

0655
15/02/05

Merseyside Special Investment Fund Limited

Annual report and financial statements

For the year ended 31 March 2004

| | 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

Directors

Mr M Davis – resigned 30 September 2004
Lord Alton of Liverpool
Mr S Edwards – resigned 30 September 2004
Mr N Kemsley
Mrs A Redmond
Mr A Strachan – resigned 18 July 2003
Mr R Swainson
Mr J E Young - appointed 18 July 2003

Secretary

DWF Secretarial Services Limited

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 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 2004

The past twelve months has seen a great deal of activity within MSIF. All three funds have seen a marked increase in applications and there remains a constant focus on the need to develop both the quantity and quality deal flow to ensure the funds are fully invested by 2008 and that the necessary returns are made.

AFM, MSIF's in-house Fund Management company has been operating successfully for two years now and has taken on a number of new recruits including a new Director of Finance and a Marketing Assistant. Across the business we have investment teams of high quality.

The need to concentrate on driving deal flow has resulted in a heightened emphasis on marketing and networking at all levels and a number of specific programmes are now underway which are designed to stimulate deal flow and raise the profile of MSIF.

Since the start of the new fund in December 2001 MSIF has made 191 investments totalling £14.3m from the second round of funding. This has brought in £40m in private sector leverage and created 774 jobs preserving a further 616. Whilst our targets over five years are challenging, these outputs are encouraging.

The Small Firms Fund continues to perform well and has made a total of 167 investments totalling £4.6m. Its BOSS programme - Business Owners Support Service - is now fully up and running, offering clients a combination of comprehensive online support and business information, training, regular events and mentoring. There is now a growing and vibrant community of MSIF clients networking and trading with one another on a regular basis. Through the I-buy initiative we hope to bring a direct financial impact in cost savings to our clients.

In the new Venture Fund a total of nine transactions have been successfully completed and the fund has invested a total of £5.3m. The Mezzanine Fund is also on target and it has invested £4.4m in a total of 15 businesses, a number of these have been in conjunction with the Venture Fund.

During the year work has continued on the development of the Seed Fund. This fund will extend MSIF's ability to support early stage business ideas particularly those from the universities. We now await the final stages of the application process.

MSIF Partners continues to operate highly effectively under the Chairmanship of Roy Swainson. This opportunity for regular communication with key organisations has contributed greatly to relationship building and raising awareness of MSIF and Partners direct involvement operationally has assisted clients in a number of instances.

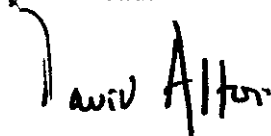
Merseyside Special Investment Fund Limited
Chairman's Statement

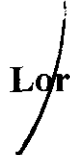
For the year ended 31 March 2004 (continued)

Having become successfully established MSIF is now looking to the next phase of its development with the imminent appointment of a new chairman following the resignation of Mr Davis in September 2004.

Mr Davis who served six challenging years as chairman, upon leaving paid his thanks to all those he had worked with and in turn MSIF Group would like to herein acknowledge his hard work and service to the company and indeed Merseyside.

Finally it remains for me to thank all those in the MSIF Group for all their hard work over the last year and I am confident that their efforts will pave the way for a successful year ahead.

David Alton

Lord Alton of Liverpool.

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2004

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 2004.

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

Financial results

The profit for the year of £241,860 (loss 2003: £429,879) has been transferred to reserves.

Directors

The directors during the year ended 31 March 2004, were as follows:

Mr M Davis – resigned 30 September 2004

Lord Alton of Liverpool

Mr S Edwards – resigned 30 September 2004

Mr N Kemsley

Mrs A Redmond

Mr A Strachan - resigned 18 July 2003

Mr R Swainson

Mr J E Young - appointed 18 July 2003

Merseyside Special Investment Fund Limited

Report of the directors for the year ended 31 March 2004 (continued)

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

Directors' responsibilities

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

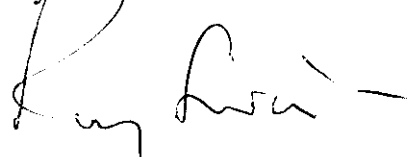
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare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

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

Auditors

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

By order of the Board



R Swainson
Director

5 November 2004

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 Report of the directors 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 2004 and of the surplus and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool
5 November 2004

Merseyside Special Investment Fund Limited

Consolidated income and expenditure account for the year ended 31 March 2004

| | Notes | 2004 £ | 2003 £ |
|---|--------|------------------|--------------------|
| Income | | | |
| Grants & contributions | 2 | 452,348 | 602,449 |
| Fees and other income | | 3,346,358 | 3,041,466 |
| Investment income | 3 | 368,895 | 462,581 |
| | | <u>4,167,601</u> | <u>4,106,496</u> |
| Administrative and investment expenses | 4 | (4,821,239) | (4,476,910) |
| Amounts written off investments | 11 (a) | (116,960) | (482,831) |
| Movement in provision for impairment of fixed asset investments | 11 (a) | 162,828 | (484,428) |
| Operating deficit before interest | | (607,770) | (1,337,673) |
| Interest receivable on bank deposits | | 1,039,059 | 1,150,499 |
| Interest payable on bank loans and overdrafts | | <u>(108,567)</u> | <u>(184,696)</u> |
| Surplus/(deficit) on ordinary activities before taxation | 5 | 322,722 | (371,870) |
| Taxation on ordinary activities | 6(a) | (80,862) | (58,009) |
| Retained surplus/(deficit) for the financial year | 18 | 241,860 | (429,879) |

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 11 to 21 form an integral part of these financial statements.

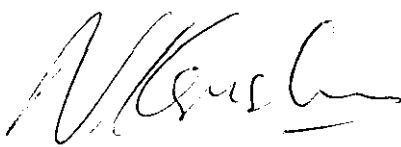
Merseyside Special Investment Fund Limited

Balance sheets at 31 March 2004

| | Notes | Group 2004 £ | 2003 £ | Company 2004 £ | 2003 £ |
|--|--------|-----------------------|-----------------------|----------------------|--------------------|
| Fixed assets | | | | | |
| Intangible assets | 9 | 113,565 | 158,991 | - | - |
| Tangible assets | 10 | 65,642 | 83,673 | - | - |
| Investments- loans | 11 (a) | 885,478 | 1,851,610 | 18 | 18 |
| Investments- other | 11 (c) | 5,100 | 6,850 | - | - |
| | | <u>1,069,785</u> | <u>2,101,124</u> | <u>18</u> | <u>18</u> |
| Current assets | | | | | |
| Debtors | 12 | 1,416,308 | 1,112,586 | 1,229,751 | 850,489 |
| Cash at bank and in hand | | <u>28,076,596</u> | <u>32,346,004</u> | <u>318,773</u> | <u>26,518</u> |
| | | <u>29,492,904</u> | <u>33,458,590</u> | <u>1,548,524</u> | <u>877,007</u> |
| Creditors: amounts falling due within one year | 13 | <u>(519,008)</u> | <u>(826,255)</u> | <u>(569,791)</u> | <u>(753,700)</u> |
| Net current assets | | <u>28,973,896</u> | <u>32,632,335</u> | <u>978,733</u> | <u>123,307</u> |
| Total assets less current liabilities | | <u>30,043,681</u> | <u>34,733,459</u> | <u>978,751</u> | <u>123,325</u> |
| Creditors: amounts falling due after more than one year | 14 | <u>(1,580,000)</u> | <u>(3,227,500)</u> | - | - |
| Provision for liabilities and charges | 15 | <u>(218,241)</u> | <u>(137,379)</u> | - | - |
| Accruals and deferred income | 16 | <u>(26,681,091)</u> | <u>(30,046,091)</u> | - | - |
| Net assets | | <u>1,564,349</u> | <u>1,322,489</u> | <u>978,751</u> | <u>123,325</u> |
| Reserves | | | | | |
| Accumulated reserves | 18 | <u>1,564,349</u> | <u>1,322,489</u> | <u>978,751</u> | <u>123,325</u> |

The financial statements on pages 8 to 21 were approved by the Board of Directors on 19 July 2004 and were signed on its behalf by


D Alton
Director


N Kemsley
Director

Merseyside Special Investment Fund Limited

Consolidated cash flow statement for the year ended 31 March 2004

| | Notes | 2004 £ | 2003 £ |
|--|-------|--------------------|--------------------|
| Net cash outflow from continuing operating activities | 21 | (4,560,115) | (842,067) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,039,059 | 1,150,499 |
| Interest paid | | (108,567) | (184,696) |
| | | <u>930,492</u> | <u>965,803</u> |
| Capital expenditure and financial investments | | | |
| Loan investments made | | - | (120,750) |
| Acquisitions and disposals | 22 | 1,750 | - |
| Fixed assets acquired | | (7,056) | (107,430) |
| Fixed assets disposals | | 1,021 | - |
| Loan repayments received | | <u>1,012,000</u> | <u>1,550,086</u> |
| | | <u>1,007,715</u> | <u>1,321,906</u> |
| Net cash (outflow)/ inflow before financing | | <u>(2,621,908)</u> | <u>1,445,642</u> |
| Financing | | | |
| Decrease in loans from the bank | 24 | <u>(1,647,500)</u> | <u>(2,517,000)</u> |
| Decrease in cash in the year | | <u>(4,269,408)</u> | <u>(1,071,358)</u> |

All cash held by the investment companies identified in note 11(c), amounting to £26,681,091 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 2004

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention. In accordance with paragraph 3(3) of Schedule 4 Companies Act 1985 the directors have adapted the arrangement of certain headings in the income and expenditure account to reflect more effectively the nature of the group's activities. The Company has utilised the exemption afforded by section 230 of the Companies Act 1985 not to present its own income and expenditure account.

Grants, contributions and accumulated surplus

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

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

a) Revenue

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

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

b) Capital

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

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

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (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 |
|------------------|---------|

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 2004 (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

| | 2004 £ | 2003 £ |
|--------------------------|----------------|----------------|
| Grants and contributions | | |
| - ERDF | 267,769 | 263,686 |
| - Other contributions | 184,579 | 338,763 |
| | <u>452,348</u> | <u>602,449</u> |

Income arises in the United Kingdom.

Included within grants and contributions is £Nil (2003: £111,735) received from the ERDF in respect of a proportion of the amount written off fixed asset investments.

3 Investment income

| | 2004 £ | 2003 £ |
|-------------------------------------|----------------|----------------|
| Profit on redemption of investments | 200,000 | 106,500 |
| Income from loan investments | 168,895 | 356,081 |
| | <u>368,895</u> | <u>462,581</u> |

4 Administrative and Investment Expenses

At 31 March 2004 MSIF had accrued net expenditure of £521,880 by way of set up costs associated with a proposed Seed Fund. To date this Fund has not been launched and so a provision has been raised against the debtor. When the fund is raised, it is likely that these set-up costs will be treated as a deferred loan to the Fund, recoverable out of the capital receipts of the Fund over a number of years. As it is established accounting practice of MSIF Group to provide for all investments in the various Limited Partnerships in which it has invested, these set-up costs have been treated in the same manner and full provision for impairment made.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

5 Surplus on ordinary activities before taxation

| | 2004 £ | 2003 £ |
|--|-------------|-------------|
| Surplus on ordinary activities before taxation is stated after charging/(crediting): | | |
| Amounts written off fixed asset investments (note 11) | 116,960 | 484,428 |
| Movement in provision for impairment of fixed asset investments (note 11) | (162,828) | 482,831 |
| Amounts provided against investments in Limited Partnerships (note 11) | 3,365,000 | 1,863,000 |
| Release of capital grants (note 11) | (3,365,000) | (1,863,000) |
| Amortisation of intangible fixed assets | 45,426 | 45,426 |
| Depreciation of tangible fixed assets | 24,066 | 26,857 |
| Auditors' remuneration for: | | |
| Audit fees (Company £35,500, 2003: £45,500) | 49,013 | 45,500 |
| Non audit services | 59,070 | 228,014 |
| Operating lease costs-land and buildings | 170,405 | 10,250 |

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

6(a) Taxation – ordinary activities

| | 2004 £ | 2003 £ |
|---------------------------------------|---------------|---------------|
| UK Corporation tax at 30% (2003: 30%) | - | 1 |
| Deferred tax | 80,862 | 58,008 |
| | <u>80,862</u> | <u>58,009</u> |

6(b) Factors affecting tax charge for period

| | 2004 £ | 2003 £ |
|---|----------------|------------------|
| Surplus/(Deficit) on ordinary activities before tax | <u>322,722</u> | <u>(371,870)</u> |
| Surplus/(Deficit) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2003:30%) | 98,816 | (111,562) |
| Effects of: | | |
| Expenses/income not deductible for tax purposes | (357,444) | (92,485) |
| Depreciation in (advance)/excess of capital allowances | (1,420) | (6,666) |
| Unrelieved taxation losses carried forward | 652,408 | 459,473 |
| Income accrued but taxable in later accounting periods | (343,116) | (180,006) |
| Decrease in short term timing differences | (47,244) | (68,752) |
| Adjustments to tax charge in respect of previous periods | - | (1) |
| Current tax charge for the period (note 6(a)) | <u>-</u> | <u>1</u> |

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

6(c) Deferred taxation

| | 2004 | 2003 |
|--|---------------|---------------|
| | £ | £ |
| Origination and reversal of timing differences | 65,725 | 53,992 |
| Adjustments in respect of previous periods | 15,137 | 4,016 |
| | <u>80,862</u> | <u>58,008</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 (2003: £9.8 million) (company £3.7 million (2003: £3.5 million)) at 31 March 2004, which have yet to be agreed with the Inland Revenue.

7 Directors' emoluments

| | 2004 | 2003 |
|--|----------------|----------------|
| | £ | £ |
| Aggregate emoluments | 127,344 | 120,522 |
| Sums paid to third parties for directors' services | 46,773 | 43,482 |
| | <u>174,117</u> | <u>164,004</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.

8 Staff costs

| | 2004 | 2003 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Wages & Salaries | 1,595,544 | 1,418,334 |
| Social security costs | 180,770 | 237,985 |
| Other Pension costs | 37,718 | 38,650 |
| | <u>1,814,032</u> | <u>1,694,969</u> |

The average number of employees during the year was 38 (2003: 34).

The company operates two defined contribution pension schemes.

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

9 Intangible assets (Group)

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

| | £ |
|---|--------------------|
| Cost | |
| At 1 April 2003 and 31 March 2004 | <u>227,130</u> |
| Amortisation | |
| At 1 April 2003 | 68,139 |
| Charge for the year | <u>45,426</u> |
| At 31 March 2004 | 113,565 |
| Net book amount at 31 March 2004 | <u>113,565</u> |
| Net book amount at 31 March 2003 | <u>158,991</u> |

10 Tangible fixed assets

| | Office Equipment |
|--|---------------------|
| Cost or valuation | £ |
| At 1 April 2003 | 283,775 |
| Additions during the year | 7,056 |
| Disposals during the year | <u>(171,631)</u> |
| At 31 March 2004 | <u>119,200</u> |
| Accumulated depreciation | |
| At 1 April 2003 | 200,102 |
| Provided during year | 24,066 |
| Disposals during the year | <u>(170,610)</u> |
| At 31 March 2004 | <u>53,558</u> |
| Net book value at 31 March 2004 | <u>65,642</u> |
| Net book value at 31 March 2003 | <u>83,673</u> |

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

11 Fixed asset investments

Group

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

| | Loan investments £ |
|-----------------------------|--------------------------|
| Cost | |
| At 1 April 2003 | 5,090,133 |
| Additions in year | - |
| Loan repayments | (1,012,000) |
| At 31 March 2004 | 4,078,133 |
| Amounts written off | |
| At 1 April 2003 | 2,473,970 |
| Movement in year | 116,960 |
| At 31 March 2004 | 2,590,930 |
| Amounts provided for | |
| At 1 April 2003 | 764,553 |
| Movement in year | (162,828) |
| At 31 March 2004 | 601,725 |
| Net book value | |
| At 31 March 2004 | 885,478 |
| At 31 March 2003 | 1,851,610 |

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

| | Investments £ | Capital grants recognised £ |
|--|---------------------|--------------------------------------|
| Cost | | |
| Balance brought forward | 14,455,009 | (14,455,009) |
| Movement during year | 3,365,000 | (3,365,000) |
| Balance carried forward | <u>17,820,009</u> | <u>(17,820,009)</u> |
| Amounts written off/released | | |
| Balance brought forward | (14,455,009) | 14,455,009 |
| Movement during year | (3,365,000) | 3,365,000 |
| Balance carried forward | <u>(17,820,009)</u> | <u>17,820,009</u> |
| Net book value at 31 March 2004 | <u>-</u> | <u>-</u> |
| Net book value at 31 March 2003 | <u>-</u> | <u>-</u> |

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

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

(c) Investments - Other

| | |
|------------------|---------|
| | £ |
| At 1 April 2003 | 6,850 |
| Disposals | (1,750) |
| At 31 March 2004 | 5,100 |

Company

| | 2004 £ | 2003 £ |
|---|-----------|-----------|
| Interests in group undertakings at cost | 18 | 18 |

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.

12 Debtors

| | Group | | Company | |
|---|-----------|-----------|-----------|-----------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Amounts falling due within one year: | | | | |
| Trade debtors | 1,330,627 | 1,082,878 | 702,388 | 441,745 |
| Amounts owed by group undertakings | - | - | 527,363 | 408,744 |
| Other debtors | - | - | 13,017 | - |
| Prepayments and accrued income | 85,681 | 29,708 | - | - |
| | 1,416,308 | 1,112,586 | 1,242,768 | 850,489 |

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

13 Creditors: amounts falling due within one year

| | Group 2004 £ | 2003 £ | Company 2004 £ | 2003 £ |
|---|--------------------|----------------|----------------------|----------------|
| Amounts falling due within one year: | | | | |
| Trade creditors | 202,081 | 244,299 | 31,843 | 31,843 |
| Amounts owed to group undertakings | - | - | 397,333 | 601,352 |
| Other taxation and social security | 42,291 | 104,336 | | 2,088 |
| Accruals | 274,636 | 477,620 | 153,632 | 118,417 |
| | <u>519,008</u> | <u>826,255</u> | <u>582,808</u> | <u>753,700</u> |

14 Creditors: amounts falling due after more than one year

| | Group 2004 £ | 2003 £ | Company 2004 £ | 2003 £ |
|---|--------------------|-----------|----------------------|-----------|
| Bank loans repayable within five years (Merseyside Special Investment Mezzanine Fund Limited) | 1,580,000 | 3,227,500 | - | - |

The bank loans are repayable in July 2006.

At 31 March 2004 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.

15 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 | |
|---|-----------------------|----------------|--------------------------------|--------------------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| At start of period | 137,379 | 79,370 | - | - |
| Excess of depreciation over tax allowance | - | - | (4,956) | (23,535) |
| Other timing differences | 93,020 | 51,291 | 571,896 | 539,201 |
| Losses | (12,158) | 6,718 | (3,088,364) | (2,564,082) |
| At end of period | <u>218,241</u> | <u>137,379</u> | <u>(2,521,424)</u> | <u>(2,048,416)</u> |

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

16 Accruals and deferred income

| | Group | | Company | |
|------------------------------------|-------------------|-------------------|----------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Capital grants received in advance | <u>26,681,091</u> | <u>30,046,091</u> | <u>-</u> | <u>-</u> |

17 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 2004 the company had three members (2003 : 3).

18 Accumulated reserve

| | Group | Company |
|--------------------------------|------------------|----------------|
| | £ | £ |
| Income and expenditure account | | |
| At 1 April 2003 | 1,322,489 | 123,325 |
| Surplus for the year | <u>241,860</u> | <u>855,426</u> |
| At 31 March 2004 | <u>1,564,349</u> | <u>978,751</u> |

19 Capital commitments

The Group had capital commitments of £Nil at the year end (2003: £Nil).

20 Financial commitments

At 31 March 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

| | 2004 | 2003 |
|----------------------------|--------------------|--------------------|
| | Land and buildings | Land and buildings |
| | £ | £ |
| Expiring: | | |
| Between two and five years | <u>156,810</u> | <u>10,250</u> |

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

| | 2004 | 2003 |
|---|--------------------|--------------------|
| | £ | £ |
| Operating deficit | (607,770) | (1,337,673) |
| Depreciation | 24,066 | 26,857 |
| Goodwill amortisation | 45,426 | 45,428 |
| Amounts (written off)/written back to investments | (45,868) | 967,259 |
| (Decrease)/Increase in debtors | (314,435) | 2,562,317 |
| Decrease in creditors | (296,534) | (1,243,255) |
| Decrease in capital grants received in advance | <u>(3,365,000)</u> | <u>(1,863,000)</u> |
| Net cash outflow from operating activities | <u>(4,560,115)</u> | <u>(842,067)</u> |

Merseyside Special Investment Fund Limited

Notes to the financial statements for the year ended 31 March 2004 (continued)

22 Acquisitions and Disposals

| | 2004 £ | 2003 £ |
|---|-----------|-----------|
| Redemption of partnership interests | 1,750 | - |
| Net cash outflow for acquisitions and disposals | 1,750 | - |

23 Reconciliation of net cash flow to movement in net debt

| | 2004 £ | 2003 £ |
|--|-------------|-------------|
| (Decrease)/increase in cash in the year | (4,269,408) | (1,071,358) |
| Cash inflow from change in debt | 1,647,500 | 2,520,948 |
| Change in net debt resulting from cash flows | (2,621,908) | 1,449,590 |
| Net debt at 1 April 2003 | 29,118,504 | 27,668,914 |
| Net debt at 31 March 2004 | 26,496,596 | 29,118,504 |

24 Analysis of net debt

| | At 1 April 2003 £ | Cashflow £ | At 31 March 2004 £ |
|--------------------------|----------------------|---------------|--------------------------|
| Net Cash | | | |
| Cash at bank and in hand | 32,346,004 | (4,269,408) | 28,076,596 |
| Debt due after 1 year | (3,227,500) | 1,647,500 | (1,580,000) |
| | 29,118,504 | (2,621,908) | 26,496,596 |

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.