

Merseyside Special Investment Fund Limited

(A company limited by guarantee and not having a share capital)

Registered Number 2981031

Annual Report and Financial Statements for the year ended 31 March 1998



Merseyside Special Investment Fund Limited

Annual Report for the year ended 31 March 1998

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Merseyside Special Investment Fund Limited

Directors and Company Information

Directors

Mr N Kemsley (Chairman)
Mr J P Conlan
Dr G M Thelwall Jones
Mr M Davis (appointed 5 May 1998)

Secretary

Mr M Davis (appointed 31 July 1998)

Registered office

5th Floor
Cunard Building
Pier Head
Liverpool
L3 1DS

Auditors

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

Principal Bankers

Barclays Bank plc
Liverpool City Business Centre
4 Water Street
Liverpool
L69 2DU

Solicitors

Davies Wallis Foyster
5 Castle Street
Liverpool
L2 4XE

Merseyside Special Investment Fund Limited

Chairman's Statement for the year ended 31 March 1998

I am delighted to be able to report a successful year for MSIF. The year to March 1998 was our first full year of trading following a delayed launch in October 1996 and produced evidence of a pattern of accelerating investment in small and medium sized enterprises (SMEs) in Merseyside; a trend which has continued into the current year.

The Business Plan of MSIF involves investments totalling £25m, over a five year investment period, which will end in March 2001. As a Board, we have contracted with the Government Office that, in return for European Regional Development Fund (ERDF) support, we will deliver the following performance targets:

- 1 Assist 500 local businesses
- 2 Create 2,590 new jobs
- 3 Safeguard 2,140 existing jobs
- 4 Encourage £45 million of associated private investment

Against this background, achievements to date are:-

	31.3.98	30.9.98	Plan
MSIF Investment	£7.6m	£10.6m	£25m
Businesses Assisted	156	215	500
New Jobs Created *	684	954	2,590
Existing Jobs Safeguarded	996	1,250	2,140
Associated Private Investment	£26.4m	£34m	£45m

*No credit for jobs created is taken until they have been created.

Given this rate of progress, I am confident that the Fund will meet all its targets by the end of the investment period.

The rate of investment has been particularly fast within the Small Firm's Fund which provides loans of up to £50,000. Consequently additional funds will be needed if the current level of demand continues for the remainder of the investment period. Provisions for private sector funding are in place and negotiations with Government Office for ERDF support were begun earlier this year.

Given its central purpose - to provide finance to those companies which cannot meet their requirement from existing sources - MSIF was always likely to be exposed to considerable losses. The central planks of its strategy to combat this are, firstly, to provide "money with management" by offering management support to those companies in which it invests in order to increase their chances of survival and success. In this regard we are indebted to Business Links in Merseyside, together with the members of our own "bank" of experienced non-Executive Directors for their support and co-operation in this activity. The second "plank" is to use ERDF to provide a financial buffer against losses.

Merseyside Special Investment Fund Limited

Chairman's Statement (Continued) for the year ended 31 March 1998

Given the benign economic climate and the short investment period to 31 March, it is perhaps not surprising that losses were running at only £319,408 against investments of almost £8M in total, at that date. Experience since March has been more in line with original forecasts and there has subsequently been, as reported elsewhere in the body of these accounts, a substantial loss to the Fund with the failure of Delivery Networks International (trading as Restaurant Express) totalling £620,000 which has been reflected in the accounts for the year ended 31 March 1998. The deteriorating overall economic climate may increase the investment risks during the remainder of the current year, although this will also provide MSIF and its Fund Managers with opportunities for further investment if other finance providers are unable to meet SME's needs.

The increasing experience of MSIF has inevitably drawn the interest of other regions of the UK and the Fund has attempted to respond to requests for advice wherever possible. Given the range of demands upon the Fund, I am grateful to MSIF's own small staff and our Fund Managers for their dedication to and enthusiasm for their tasks. There is also a wider community represented within MSIF Partners, all of whom are working to the same agenda of economic regeneration across Merseyside as MSIF. I wish to record the Board's thanks to all of them for their continued interest and support and to the members of both Government Office for the North West and of DGXVI, the Directorate at the European Commission responsible for MSIF, who have been helpful in promoting the concept of MSIF at every opportunity.

I took up the position of Chairman some three years ago when the reality of the Fund was still a long way off. As it now moves into a period of consolidation and further growth, it is right to move on and I am delighted that Michael Davis has agreed to become Chairman in my stead. I can assure him and my fellow directors of my continued support and enthusiasm for a project which remains at the cutting edge of financial engineering for the SME Sector.


Neil Kemsley
Chairman
6 October 1998

Merseyside Special Investment Fund Limited

Report of the Directors for the year ended 31 March 1998

The Directors present their report and the audited financial statements of the Group and the Company for the year ended 31 March 1998. A full list of subsidiary companies is given in note 11.

Principal Activities

Merseyside Special Investment Fund Limited 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.

The Company's aim is to establish, support and monitor investment funds which will provide venture and loan capital to small and medium sized enterprises (SMEs) operating in the county of Merseyside, 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 Merseyside.

Although the launch of the fund took longer than anticipated, it is nevertheless very satisfying to note progress within the first twenty months of operation to 31 March 1998 and thereafter up to the date of this report, and the company remains confident of exceeding overall targets.

Financial Results

The surplus for the year, £756,850 (1997: £288,494), has been transferred to reserves.

Directors

The Directors of the company at the date of this report are shown on page 1.

The Directors at 31 March 1998, all of whom served during the year, were as follows:

Mr S R Burton	- appointed 1 October 1997, resigned 31 July 1998
Mr J P Conlan	
Mr N Kemsley	- nominated by the Bank of England
Dr G M Thelwall Jones	- nominated by Liverpool Chamber of Commerce

Mr E McGonagle resigned as a director on 30 September 1997 and Mrs E Downs MBE resigned as a director on 31 March 1998. Mr M Davis was appointed on 5 May 1998.

Directors' Interests

No Director of the Company has any interest in the Company within the meaning of the Companies Act 1985. The Company is owned by the members who have subscribed to the company and have been approved by the Directors subject to an undertaking to contribute to its assets in accordance with clause 5 of the Memorandum of Association.

Year 2000

The Directors have assessed that the potential impact and effects of the Year 2000 issue will not have a material effect on the activities of the Group and the Company.

Merseyside Special Investment Fund Limited

Report of the Directors for the year ended 31 March 1998

Directors' Responsibilities

Company law requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the Company and Group at the end of the financial year and of the surplus or deficit of the group for the year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1998. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors of the company will be proposed at the Annual General Meeting.

By order of the Board



M Davis, Secretary

6 October 1998

REPORT OF THE AUDITORS

to the members of Merseyside Special Investment Fund Limited

We have audited the financial statements on pages 7 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

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 1998 and of the surplus, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Liverpool

6 October 1998

Merseyside Special Investment Fund Limited

Consolidated Income and Expenditure Account for the year ended 31 March 1998

	Notes	1998 £	1997 £ as restated
Turnover	2	3,144,859	2,156,692
Administrative expenses		(1,612,618)	(1,895,079)
Operating surplus		<u>1,532,241</u>	<u>261,613</u>
Exceptional item	4	(939,408)	-
Operating surplus before investment income and interest payable		<u>592,833</u>	<u>261,613</u>
Investment income	3	386,635	77,246
Interest payable on bank loans and overdrafts		(222,618)	(50,365)
Surplus on ordinary activities before taxation	5	<u>756,850</u>	<u>288,494</u>
Taxation on surplus on ordinary activities	7	-	-
Retained surplus for the financial year	19	<u><u>756,850</u></u>	<u><u>288,494</u></u>

All operations are continuing.

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

The notes on pages 11 to 21 form an integral part of these financial statements.

Merseyside Special Investment Fund Limited

Statement of Total Recognised Gains and Losses for the year ended 31 March 1998

	Notes	1998 £	1997 £ as restated
Surplus for the financial year		756,850	288,494
Total recognised gains relating to the year		756,850	288,494
Prior year adjustment	6	(18,234)	-
Total gains recognised since last annual report		738,616	288,494

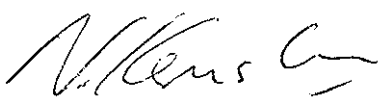
The notes on pages 11 to 21 form an integral part of these financial statements.

Merseyside Special Investment Fund Limited

Balance Sheets at 31 March 1998

	Notes	Group		Company	
		1998 £	1997 £ as restated	1998 £	1997 £ as restated
Fixed assets					
Tangible assets	10	106,752	117,847	106,752	117,847
Investments	11	<u>6,598,437</u>	<u>1,185,644</u>	<u>8</u>	<u>8</u>
		<u>6,705,189</u>	<u>1,303,491</u>	<u>106,760</u>	<u>117,855</u>
Current assets					
Debtors	12	449,193	433,121	53,318	99,603
Cash at bank and in hand		<u>1,772,708</u>	<u>1,839,598</u>	<u>266,303</u>	<u>153,609</u>
		<u>2,221,901</u>	<u>2,272,719</u>	<u>319,621</u>	<u>253,212</u>
Creditors : amounts falling due within one year	13	(712,085)	(600,876)	(235,128)	(245,138)
Net current assets		<u>1,509,816</u>	<u>1,671,843</u>	<u>84,493</u>	<u>8,074</u>
Total assets less current liabilities		<u>8,215,005</u>	<u>2,975,334</u>	<u>191,253</u>	<u>125,929</u>
Creditors: amounts falling due after one year	14	(7,112,984)	(2,614,484)	(10,730)	(12,230)
Accruals and deferred income	16	(61,254)	(76,933)	(61,254)	(76,933)
Net assets		<u>1,040,767</u>	<u>283,917</u>	<u>119,269</u>	<u>36,766</u>
Reserves					
Income and expenditure account	18	<u>1,040,767</u>	<u>283,917</u>	<u>119,269</u>	<u>36,766</u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 6 October 1998 and were signed on its behalf by:


N Kemsley
Director

The notes on pages 11 to 21 form an integral part of these financial statements.

Merseyside Special Investment Fund Limited

Consolidated Cash Flow Statement for the year ended 31 March 1998

	Notes	1998 £	1997 £ as restated
Net cash inflow from continuing operating activities	23	1,756,728	337,239
Returns on investments and servicing of finance			
Investment income received		386,635	77,246
Interest paid		(222,618)	(50,365)
		<u>164,017</u>	<u>26,881</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(19,166)	(54,693)
Equity and loan investments made		(6,648,200)	(1,243,936)
Repayments received		295,999	15,772
		<u>(6,371,367)</u>	<u>(1,282,857)</u>
Net cash outflow before financing		<u>(4,450,622)</u>	<u>(918,737)</u>
Financing			
Increase in debt		4,500,000	2,602,254
Increase in cash in the year	25	<u><u>49,378</u></u>	<u><u>1,683,517</u></u>

The notes on pages 11 to 21 form an integral part of these financial statements.

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

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.

Basis of consolidation

The consolidated income and expenditure account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 March 1998. The results of subsidiaries sold or acquired are included in the consolidated income and expenditure account up to, or from, the date control passes. Intra-group transactions are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary, are charged to the post acquisition income and expenditure account.

The principal activity of the group is to establish a portfolio of loan and equity investments in local businesses. The group does not seek to influence the financial and operating policies of these investments and accordingly it does not exercise significant influence. On this basis, these investments have not been consolidated. Details of those investments where the company held 20% or more of the nominal share capital are given in note 10 to the financial statements.

Change in accounting policy

Comparative figures have been restated to reflect a change in accounting policy relating to contributions towards refurbishment costs received. These had been credited against the cost of the related fixed assets, which is not in agreement with UITF Abstract 12 "Lessee accounting for reverse premiums and similar incentives". Contributions towards refurbishment costs received from the lessor are now credited over the period of the lease to the next rent review date. The accounting policy has been changed because the Directors consider that the new policy gives a fairer description of the company's results as they arise during the course of an accounting period.

Fixed asset investments

Investments, including investments in subsidiaries, are stated at cost in the balance sheet unless, in the opinion of the Directors, there has been a permanent diminution in value.

Turnover

Turnover represents amounts receivable for services provided in the UK, excluding Value Added Tax, and grants and contributions received.

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

Grants and contributions

Grants and contributions that relate to specific capital expenditure are treated as deferred income which is then credited to the income and expenditure account over the related asset's useful life. Other grants and contributions are credited to the income and expenditure account in the same period as the related expenditure.

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.

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 life of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	5 years
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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.

2 Turnover

	1998 £	1997 £
Turnover consists of:		
European Regional Development Fund grants	2,509,045	1,965,832
Single Regeneration Budget grants	4,211	-
Public sector contributions received	380,124	164,944
Private sector contributions received	4,000	-
Professional fees charged to investee companies	247,479	25,916
	<u>3,144,859</u>	<u>2,156,692</u>

Turnover arises in the United Kingdom.

3 Investment income

	1998 £	1997 £
Income from loan investments	304,484	13,924
Income from bank deposits	82,151	63,322
	<u>386,635</u>	<u>77,246</u>

4 Exceptional item

	1998 £	1997 £
Amounts written off fixed asset investments (note 11)	<u>939,408</u>	<u>-</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

4 Exceptional item (Continued)

The investment of £620,000 of a subsidiary undertaking, Merseyside Special Investment Venture Fund Limited Partnership, in Delivery Networks International Limited was written off following the issue of a liquidation order on 21 August 1998 against the company. The remaining £319,408 relates to loan investments made by subsidiary undertakings which will not be recovered from the investees, although by virtue of the offer letter from ERDF a proportion of this amount, £154,364, has been recovered and credited to the income and expenditure account.

5 Surplus on ordinary activities before taxation

	1998	1997
	£	£
Surplus on ordinary activities before taxation is stated after charging:		as restated
Depreciation of tangible fixed assets	34,053	10,939
Auditors' remuneration for:		
Audit fees (Company £12,289 : 1997 £13,500)	12,289	13,500
Hire of plant and machinery - operating leases	3,731	3,731
Hire of other assets - operating leases	22,707	33,159
and after crediting:		
Deferred income release (note 16)	19,471	15,682

6 Prior year adjustment

A prior year adjustment £ 18,234 has been made as a result of the change in accounting policy in respect of contributions towards refurbishment costs as detailed in note 1 and represents an adjustment to opening income and expenditure account reserves as shown in note 18.

The effect of the change in accounting policy is to increase the current year's surplus before taxation by £190.

The effect on the comparative income and expenditure account of the above adjustment is to decrease the surplus before taxation from £306,728 to £288,494, increase the net book value of fixed assets by £74,093 (note 10) and increase deferred income by £76,933 (note 16).

7 Taxation

The Group has generated losses for taxation purposes. Accordingly no provision has been made for corporation tax. The Group has losses available to be carried forward for tax purposes of approximately £2.8 million (1997: £1.7 million) (company: £1.2 million (1997: £900,000)) at 31 March 1998, which have yet to be agreed with the Inland Revenue.

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

8 Directors' emoluments

	1998	1997
	£	£
Aggregate emoluments	48,591	36,050
Sums paid to third parties for directors' services	13,500	19,425
	<u>62,091</u>	<u>55,475</u>

9 Staff costs

The average weekly number of employees during the year was:

	1998	1997
By staff category:	Number	Number
Administration	<u>8</u>	<u>8</u>

	1998	1997
	£	£
Wages and salaries	85,814	75,093
Social security costs	11,561	3,931
	<u>97,375</u>	<u>79,024</u>

10 Tangible fixed assets

Group and Company

	Office Equipment £ as restated
Cost	
At 1 April 1997 as previously stated	54,693
Prior year adjustment - note 6	<u>92,615</u>
At 1 April 1997 as restated	147,308
Additions	<u>22,958</u>
At 31 March 1998	<u>170,266</u>
Depreciation	
At 1 April 1997 as previously stated	10,939
Prior year adjustment - note 6	<u>18,522</u>
At 1 April 1997 as restated	29,461
Charge for the year	<u>34,053</u>
At 31 March 1998	<u>63,514</u>
Net book value	
At 31 March 1998	<u>106,752</u>
At 31 March 1997 as previously stated	43,754
Prior year adjustment - note 6	<u>74,093</u>
At 31 March 1997 as restated	<u>117,847</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

11 Fixed asset investments

Company	1998 £	1997 £
Interests in group undertakings at cost	<u>8</u>	<u>8</u>
Name of undertaking	Principal activity	
Merseyside Special Investment Venture Fund Limited *	Investment Company	
Merseyside Special Investment (Small Firms) Fund Limited *	Investment Company	
Merseyside Special Investment Mezzanine Fund Limited	Investment Company	
MSIF Interest Rebates Limited	Service Company	
Merseyside Special Investment Venture Fund Limited Partnership	Investment Fund	
Merseyside Special Investment (Small Firms) Fund Limited Partnership	Investment Fund	

* Both of the limited partnerships are owned via these subsidiary companies.

All of the companies listed are wholly owned and incorporated in England and Wales. All holdings are of £1 ordinary shares. The limited partnerships operate in England and Wales. The company owns 49.9% of the Partners' capital and exercises dominant influence over the partnerships. The accounting periods of all of the subsidiaries listed above are coterminous with that of the parent company.

Group	Loan investments £	Participating interests		Total £
		Equity £	Non-equity £	
Cost				
At 1 April 1997	763,164	163,750	301,250	1,228,164
Additions	4,499,835	1,071,730	1,076,635	6,648,200
Repayments	(295,999)	-	-	(295,999)
At 31 March 1998	<u>4,967,000</u>	<u>1,235,480</u>	<u>1,377,885</u>	<u>7,580,365</u>
Amounts written off				
At 1 April 1997	42,520	-	-	42,520
Written off in the year (note 4)	439,408	200,000	300,000	939,408
At 31 March 1998	<u>481,928</u>	<u>200,000</u>	<u>300,000</u>	<u>981,928</u>
Net book value				
At 31 March 1998	<u>4,485,072</u>	<u>1,035,480</u>	<u>1,077,885</u>	<u>6,598,437</u>
At 31 March 1997	<u>720,644</u>	<u>163,750</u>	<u>301,250</u>	<u>1,185,644</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

11 Fixed asset investments (continued)

Group

At 31 March 1998 the following investments, representing 20% or more of the nominal value of the investee companies' shares, were held by the Company's subsidiary undertakings:

Name of undertaking	Principal activity	Accounting Year end	Description of shares	Proportion of control
GMT Manufacturing Limited	Manufacture of pressed fabricated metal components	31 December	Ordinary £1 Preference £1	0% 100%
Product Plus Limited	Electro mechanised components	30 September	Ordinary £1 Preference £1	0% 100%
Techfair Limited	Electronic capacitor manufacture	31 January	A Ordinary £1 Ordinary £1 Preference £1	100% 0% 100%
Delivery Networks International Limited	Home meal delivery service	31 March	Ordinary 10p A Ordinary 10p Preference 1p A Preference 1p	0% 50% 33.1% 100%
Polymer Reprocessors Limited	Plastics recycling	31 March	Ordinary £1 Preferred Ord. £1 Convertible Pref. £1 Preference £1	0% 100% 100% 40%
Gastronomix Limited	Frozen soup manufacture	31 March	Ordinary 1p A Ordinary 1p Preference £1	0% 50% 50%
Global Money Transfer Holdings Limited	Funds transfer to emerging countries	30 June	A Ordinary 10p B Ordinary 10p Preference £1	0% 31.9% 36.4%
Sharma Group plc	Bag and promotional goods manufacture and distribution	31 October	Ordinary £1 A Ordinary £1 Preference £1	0% 100% 100%
EPA Limited	Electronic display advertising	31 December	A Ordinary 10p B Ordinary 10p C Ordinary 10p	0% 0% 100%

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

11 Fixed asset investments (continued)

Name of undertaking	Principal activity	Accounting Year end	Description of shares	Proportion of control
J A Jones Limited	Tree and shrub nursery	30 September	Ordinary £1 Preferred Ord. £1	0% 100%
Systolix Limited	Design of microelectronics for the semi-conductor industry	30 November	Ordinary 1p A Ordinary 1p C Ordinary 1p D Ordinary 1p Preference 1p	0% 50% 0% 0% 50%
Earth to Earth International Limited	Eco-friendly products for the horticulture industry	31 December	Ordinary £1 A Ordinary £1 Preference £1	0% 88.9% 48%
Valley Park Foods Limited	Fish canning	31 March	Ordinary £1 A Ordinary £1 Preference £1	0% 100% 100%

All the above companies are registered in England and Wales and operate in England.

12 Debtors

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	78,913	5,576	-	-
Amounts owed by group undertakings	-	-	1,000	-
Grant reserve - note 15	-	-	39,750	-
Other debtors	359,095	346,529	1,383	18,587
Prepayments	11,185	81,016	11,185	81,016
	<u>449,193</u>	<u>433,121</u>	<u>53,318</u>	<u>99,603</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

13 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997 as restated	1998	1997 as restated
	£	£	£	£
Amounts falling due within one year:				
Bank overdrafts - secured	20,950	137,218	-	-
Trade creditors	85,064	96,458	-	37,448
Amounts owed to group undertakings	-	-	360	48,884
Grant reserve - note 15	303,809	240,955	-	116,349
Other taxation and social security	-	8,732	-	-
Other creditors	199,541	895	199,541	-
Accruals	102,721	116,618	35,227	42,457
	<u>712,085</u>	<u>600,876</u>	<u>235,128</u>	<u>245,138</u>

Bank overdrafts are secured by a charge over the assets of the Group and are repayable on demand.

14 Creditors: Amounts falling due after more than one year

	Group		Company	
	1998	1997 as restated	1998	1997 as restated
	£	£	£	£
Bank loans repayable after five years	5,000,000	1,900,000	-	-
Partners' loans repayable after five years	2,102,254	702,254	-	-
Accruals	10,730	12,230	10,730	12,230
	<u>7,112,984</u>	<u>2,614,484</u>	<u>10,730</u>	<u>12,230</u>

Partners' loans only become repayable upon realisation of the investment portfolio. The bank loans are repayable in July 2006.

At 31 March 1998 bank loans represent borrowings under multiple drawdown loan facilities of £14 million under facility agreements entered into on 17 July and 26 July 1996 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.

Interest is charged at the London Inter-Bank Offer Rate plus 0.9% plus associated costs.

15 Grant reserve

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
At 1 April	240,955	-	116,349	-
ERDF Grant received	2,571,899	2,206,787	270,235	1,000,877
ERDF Grant entitlement	(2,509,045)	(1,965,832)	(426,334)	(884,528)
At 31 March	<u>303,809</u>	<u>240,955</u>	<u>(39,750)</u>	<u>116,349</u>

Certain elements of ERDF grants are received in advance. The balance at the year end represents grants received in advance of entitlement, or grants to which the Group/Company are entitled but have not yet been claimed.

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

16 Accruals and deferred income

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
		as restated		as restated
Contributions towards refurbishment costs				
At 1 April as previously stated	76,933	-	76,933	-
Received in the year	3,792	92,615	3,792	92,615
Amortised in the year	(19,471)	(15,682)	(19,471)	(15,682)
At 31 March	<u>61,254</u>	<u>76,933</u>	<u>61,254</u>	<u>76,933</u>

The company received a contribution towards the refurbishment costs of its offices from its landlord. This is being utilised over the period between its issue and the next rent review in September 2001. The company also received a contribution from Merseyside Development Corporation towards its set up costs which is being amortised over the useful life of the associated assets, this being 5 years. The comparative figures arise entirely as a result of the prior year adjustment as detailed in note 6.

17 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 1998 the Company had 3 members (1997: 3).

18 Reserves

	Income and expenditure account	
	Group	Company
	£	£
	as restated	as restated
At 1 April 1997 as previously stated	302,151	55,000
Prior year adjustment (note 6)	(18,234)	(18,234)
At 1 April 1997 as restated	<u>283,917</u>	<u>36,766</u>
Surplus for the year	756,850	82,503
At 31 March 1998	<u>1,040,767</u>	<u>119,269</u>

19 Reconciliation of movement in reserves

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
		as restated		as restated
Income and expenditure account				
At 1 April	283,917	(4,577)	36,766	(4,577)
Surplus for the year	756,850	288,494	82,503	41,343
At 31 March	<u>1,040,767</u>	<u>283,917</u>	<u>119,269</u>	<u>36,766</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

20 Minority interests

The consolidated results include the two limited partnerships which, although the Company exercises dominant control, are not wholly owned. However, the partnership agreements provide for the appropriation of surpluses and deficits.

The Merseyside Special Investment Venture Fund Limited Partnership's agreement stipulates that all deficits will be met by the parent company and profits will be subject to the appropriation system documented therein. The partnership currently shows a deficit and as such is all attributable to the parent company.

The Merseyside Special Investment (Small Firms) Fund Limited Partnership's agreement stipulates that all of the monies advanced shall only be repaid out of an eventual surplus after the support grants issued by the parent company have been repaid. At 31 March 1998, surpluses stood at £250,000 with support grants to date totalling £464,000. Therefore, at the year end, the surplus was fully attributable to the parent company.

21 Capital commitments

The Company had no capital commitments at the year end (1997: Nil).

22 Financial commitments

At 31 March 1998, the Group had annual commitments under non-cancellable operating leases as set out below:

	1998		1997	
	Land and Buildings £	Other £	Land and Buildings £	Other £
Expiring:				
Between two and five years	-	3,213	-	-
After five years	28,863	518	28,863	3,731
	<u>28,863</u>	<u>3,731</u>	<u>28,863</u>	<u>3,731</u>

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

	1998 £	1997 £
		as restated
Operating surplus	592,833	261,613
Depreciation	34,053	29,461
Deferred income amortisation	(19,471)	(15,682)
Amounts written off loan investments	939,408	42,520
Increase in debtors	(16,072)	(433,121)
Increase in creditors	225,977	452,448
Net cash inflow from operating activities	<u>1,756,728</u>	<u>337,239</u>

Merseyside Special Investment Fund Limited

Notes to the Financial Statements for the year ended 31 March 1998

24 Analysis of net debt

	At 1 April 1997 £	Cash flow £	At 31 March 1998 £
Net cash			
Cash at bank and in hand	1,839,598	(66,890)	1,772,708
Bank overdraft	(137,218)	116,268	(20,950)
	<u>1,702,380</u>	<u>49,378</u>	<u>1,751,758</u>
Debt due after 1 year	(2,602,254)	(4,500,000)	(7,102,254)
	<u>(899,874)</u>	<u>(4,450,622)</u>	<u>(5,350,496)</u>

25 Reconciliation of net cash flow to movement in net debt

	1998 £	1997 £
Increase in cash in the year	49,378	1,683,517
Cash inflow from increase in debt	<u>(4,500,000)</u>	<u>(2,602,254)</u>
Change in net debt resulting from cashflows	(4,450,622)	(918,737)
Net debt at 1 April	(899,874)	18,863
Net debt at 31 March	<u>(5,350,496)</u>	<u>(899,874)</u>

26 Related party transactions

During the year, a subsidiary undertaking, Merseyside Special Investment Venture Fund Limited Partnership, paid fees of £266,693 (1997: £191,667) to a partner, Minster Merseyside Ventures Limited, in its capacity as the fund managers. At 31 March 1998, the amount due by that company was £28,560 (1997: £Nil). This amount is included in other debtors. In addition, the partnership also received the following amounts from its partners in relation to their capital requirements under the partnership agreement.

	1998 £	1997 £
Mersey Nominees Limited	1,000,000	500,000
Chase Nominees Company Limited	<u>400,000</u>	<u>200,000</u>

These amounts are included in creditors due after more than one year.

During the year, a subsidiary undertaking, Merseyside Special Investment (Small Firms) Fund Limited Partnership, paid fees of £247,467 (1997: £159,741) to a partner, BCE Fund Managers (Merseyside) Limited, in its capacity as the fund managers. At 31 March 1998, the amount due to this company was £Nil (1997: £56,750).