

Registered number  
4257322

# Merseyside Special Investment Mezzanine Fund Two Limited

## Annual report and financial statements

31 March 2004



**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Annual report and financial statements**  
**for the year ended**  
**31 March 2004**

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## **Merseyside Special Investment Mezzanine Fund Two Limited**

### **Directors and company information**

#### **Directors**

Mr M Davis  
Lord Alton of Liverpool  
Mr S Edwards  
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

#### **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 Mezzanine Fund Two Limited**  
**Report of the directors**  
**for the year ended 31 March 2004**

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

**Principal activities**

Merseyside Special Investment Mezzanine Fund Two Limited was established by Merseyside Special Investment Fund as part of the Merseyside Special Investment Fund group.

The company's aim is to establish, support and monitor investment funds via its interest in the Merseyside Special Investment Mezzanine Fund 2 Limited Partnership which provide loans 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 the North West.

**Business Review**

The company was incorporated on 23 July 2001 and has consolidated its successful start to trading since becoming the initial limited partners in the Merseyside Special Investment Mezzanine Fund 2 Limited Partnership.

**Financial results**

The loss for the year of £141,047 (2003: profit £212,970) has been transferred from reserves.

**Dividends**

The directors do not recommend the payment of a dividend (2003: £Nil)

**Directors**

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

Mr M Davis  
Lord Alton of Liverpool  
Mr S Edwards  
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 Mezzanine Fund Two 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. The interests in the share capital of the ultimate parent company, Merseyside Special Investment Fund Limited, are shown in that company's financial statements.

**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 profit and loss of the company for that period. In preparing those financial statements, the directors are required to:

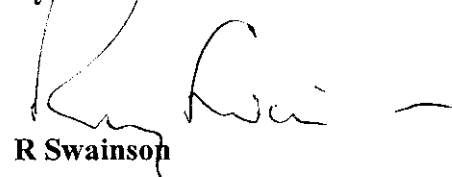
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare 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 enable it to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company 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**

**19 July 2004.**

## **Merseyside Special Investment Mezzanine Fund Two Limited**

### **Independent auditors' report**

#### **to the members of Merseyside Special Investment Mezzanine Fund Two Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet 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 financial statements in accordance with applicable United Kingdom law and 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 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 Report of the Directors.

#### **Basis of audit opinion**

We conducted our audit in accordance with auditing standard 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 company's circumstances, consistently applied and adequately disclosed.

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

**Merseyside Special Investment Mezzanine Fund Two Limited**

**Independent auditors' report**

**to the members of Merseyside Special Investment Mezzanine Fund Two Limited  
(continued)**

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2004 and of its loss 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

19 July 2004

**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Profit and loss account**  
**for the year ended 31 March 2004**

	Notes	2004 £	2003 £
Administrative and investment expenses		<u>(20)</u>	<u>(60,037)</u>
<b>Operating loss before interest receivable</b>		<b>(20)</b>	<b>(60,037)</b>
Bank interest receivable		<b>238,602</b>	273,007
Profit on ordinary activities before taxation	2	<u><b>238,582</b></u>	<u>212,970</u>
Taxation on profit on ordinary activities	3	-	-
Profit on ordinary activities after taxation		<u><b>238,582</b></u>	<u>212,970</u>
Dividends		<b>(379,629)</b>	-
<b>Retained (loss)/profit for the financial year</b>		<u><u><b>(141,047)</b></u></u>	<u><u>212,970</u></u>

All operations are continuing.

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

The company has 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 8 to 11 form an integral part of these financial statements.




**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Balance Sheet**  
**as at 31 March 2004**

	Notes	2004 £	2003 £
<b>Fixed assets</b>			
Investments	6	-	-
<b>Current assets</b>			
Cash at bank and in hand		6,404,521	7,445,568
<b>Total assets less current liabilities</b>		<u>6,404,521</u>	<u>7,445,568</u>
<b>Creditors: amounts falling due after more than one year</b>	7	(6,249,273)	(7,149,273)
<b>Net assets/(liabilities)</b>		<u>155,248</u>	<u>296,295</u>
<b>Financed by:</b>			
Share capital	8	2	2
Reserves	9	155,246	296,293
<b>Equity shareholders' funds</b>	10	<u>155,248</u>	<u>296,295</u>

The financial statements on pages 6 to 11 were approved by the Board of Directors on 19 July 2004 and were signed on its behalf by



M Davis  
Director



N Kemsley  
Director

## **Merseyside Special Investment Mezzanine Fund Two 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 accounting**

The financial statements have been prepared under the historical cost convention. The company has taken advantage of the exemption afforded by section 228 of the Companies Act 1985 not to prepare consolidated accounts on the basis that it is a wholly owned subsidiary. The ultimate parent company has presented consolidated financial statements.

##### **Basis of preparation**

The principal activity of the company is to invest in a Limited Partnership the objective of which is to establish a portfolio of loan and equity investments in local businesses. The company does not seek to influence the financial and operating policies of these investments and does not exercise significant influence. On this basis, the Limited Partnership has not been consolidated within these financial statements.

##### **Grants and contributions and accumulated surplus**

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 specific investments are recognised at the point at which the matching 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.

##### **Fixed asset investments**

Investments in the limited partnerships are stated at cost less provision for impairment. 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 of the other investors in the partnerships, an immediate and full provision for impairment of investment capital is made.

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.

##### **Administrative expenses**

Directors' and auditors' fees are met by the holding company. These are re-charged via management charges made by the holding company. The directors consider that any directors' fees attributable to this company are insignificant.

##### **Cash flow statement**

The company has taken advantage of the exemption under FRS1 (Revised) 'Cash Flow Statements' to subsidiary undertakings from preparing a cash flow statement. A cash flow statement is included in the financial statements of the ultimate holding company.

**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Notes to the financial statements**  
**for the year ended 31 March 2004**  
**(continued)**

<b>2 Profit on ordinary activities before taxation</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>

**Profit on ordinary activities before taxation is stated after charging/(crediting):**

Change in provision for impairment of investments (note 6)	<b>900,000</b>	468,000
Release of capital grants (note 6)	<b>(900,000)</b>	<b>(468,000)</b>

Income arises in the United Kingdom.

<b>3a Taxation - ordinary activities</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>

UK corporation tax at 30%	<b>-</b>	<b>-</b>
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**3b Factors affecting tax charge for year**

The tax assessed for the period is lower (2003:lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before tax	<b>238,583</b>	212,970
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30%	<b>71,575</b>	63,891
<i>Effects of:</i>		
Unrelieved taxation losses carried forward	-	(55,340)
(Decrease) in short term timing differences	-	(8,551)
Group relief not paid	<b>(71,575)</b>	-
Current tax charge for the period (note 3(a))	<b>-</b>	<b>-</b>

**4 Dividends**

Interim dividends of £379,629 have been paid. The directors recommend no final dividend (2003 £Nil).

**5 Directors' emoluments**

The directors received no emoluments during the year.

**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Notes to the financial statements**  
**for the year ended 31 March 2004**  
**(continued)**

**6 Fixed asset investments**

	<b>Investments</b>	<b>Capital grants recognised £</b>
<b>Cost</b>		
At 1 April 2003	1,850,727	(1,850,727)
Movement during year	900,000	(900,000)
<b>At 31 March 2004</b>	<b>2,750,727</b>	<b>(2,750,727)</b>
<b>Amounts written off/released</b>		
At 1 April 2003	(1,850,727)	1,850,727
Movement in year	(900,000)	900,000
<b>At 31 March 2004</b>	<b>(2,750,727)</b>	<b>2,750,727</b>
<b>Net book value</b>		
<b>At 31 March 2004</b>	<b>-</b>	<b>-</b>
At 31 March 2003	-	-

<b>Name of undertaking</b>	<b>Principal activity</b>	<b>Description of investment</b>	<b>Proportion of interest in the capital of the partnership</b>
Merseyside Special Investment Mezzanine Fund 2 Limited Partnership	Investment Fund	Partner's capital	100%

The above entity is registered and operates in England and Wales. Its registered office is 5th Floor, Cunard Building, Pier Head, Liverpool. Its accounting period is coterminous with that of this company.

A copy of the accounts for the period ended 31 March 2004 of the above undertaking will be appended to these accounts when submitted to the Registrar of Companies.

**7 Creditors : amounts falling due after more than one year**

	<b>2004 £</b>	<b>2003 £</b>
<b>Grants received in advance:</b>		
Balance brought forward at 1 April	7,149,273	7,617,273
Amounts recognised during the year	(900,000)	(468,000)
Balance carried forward at 31 March	<b>6,249,273</b>	<b>7,149,273</b>

**Merseyside Special Investment Mezzanine Fund Two Limited**  
**Notes to the financial statements**  
**for the year ended 31 March 2004**  
**(continued)**

<b>8 Share capital</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
1,000 ordinary shares of £1 each	<u><b>1,000</b></u>	<u><b>1,000</b></u>
<b>Issued , called up and fully paid</b>		
2 ordinary shares of £1 each	<u><b>2</b></u>	<u><b>2</b></u>
<b>9 Reserves</b>		<b>Profit and</b>
		<b>loss account</b>
		<b>£</b>
At 1 April 2003		<b>296,293</b>
Loss for the year		<b>(141,047)</b>
At 31 March 2004		<u><b>155,246</b></u>
<b>10 Reconciliation of movement in shareholders' funds</b>		
	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Opening shareholders' funds	<b>296,295</b>	<b>83,325</b>
(Loss)/profit for the financial year	<b>(141,047)</b>	<b>212,970</b>
<b>Closing shareholders' funds</b>	<u><b>155,248</b></u>	<u><b>296,295</b></u>

**11 Capital commitments**

The company had no capital commitments at the year end (2003: £Nil).

**12 Related party transactions**

The company, being a wholly owned subsidiary, has taken advantage of the exemptions afforded by FRS 8 'Related Party Disclosures' not to disclose transactions with other companies in the group headed by Merseyside Special Investment Fund Limited.

**13 Ultimate parent company**

In their opinion, the directors consider Merseyside Special Investment Fund Limited, a company registered in England and Wales, to be the ultimate parent company. A copy of the financial statements of this company can be obtained from the Company Secretary at the Registered Office, given on page 1.