



Annual
Report
2006

Chairman



Since our first report, there has been good progress in the performance of the Fund, in particular over recent months, in relation to the two Risk Capital Funds.

We have now reached the half way stage in the Fund's life from an investment point of view. Good progress has been made, but much work remains to be done in order to achieve our targets. I am able to report that there has been considerable enthusiasm for the Loan Funds, to the point that the Small Loans Fund has performed at or above profile since investment commenced. I am also advised that the Micro Loans Fund is one of the best performing funds of its type in the country.

I am very pleased that our efforts in marketing the Fund throughout the region have been well supported by the Business Links, Chambers of Commerce and Enterprise Agencies, as well as the many intermediaries and other individuals and organisations who have brought forward appropriate deals and also participated in our aftercare programme, which Yorkshire Forward very kindly agreed to support.

The challenge now is to ensure that all the Funds maintain successful momentum over the remainder of the investment period. We need to work hard in continuing to spread the message about the advantages of Partnership Investment Finance to the Objective 2 Regions of Yorkshire and The Humber.

I am also pleased to report that we have appointed a new Non Executive Director, Ann Oldroyd, who is well respected in the Social Enterprise field in which she works. Social Enterprise is part of our remit and I am sure that, with the help of Ann and others in the Social Enterprise arena, this sector will be fully aware of the availability of this key support.

I must make it clear that our agenda in assisting in the development of small and medium sized enterprises and Social Enterprises in the region includes other targets such as job creation and increased turnover, which should lead to the general economic and social improvement of our region.

While our stakeholders all have different aspirations relating to their involvement in this venture, they are all extremely supportive of the Fund's efforts and have given their time and other resources to help us in our endeavours.

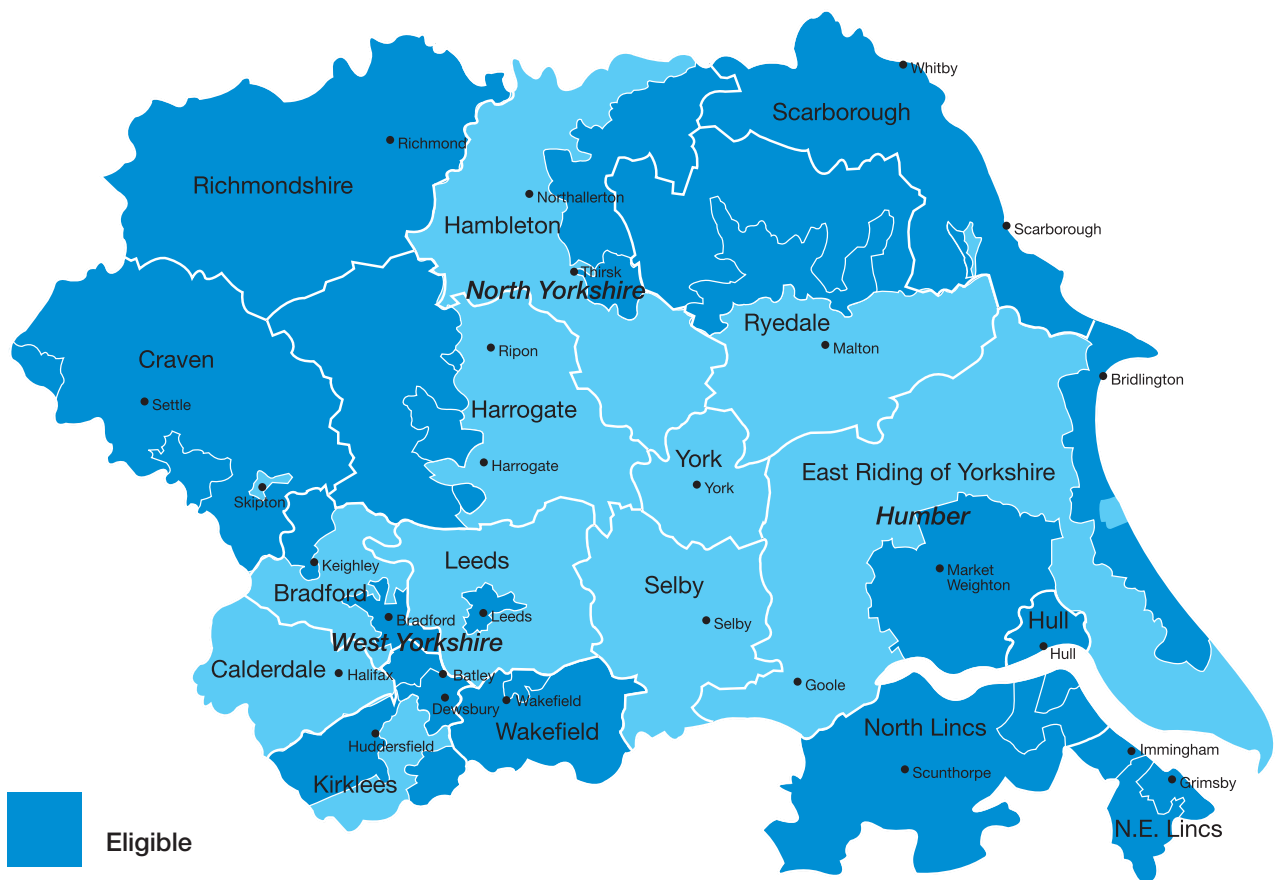
We are all positive that we can achieve full investment, but I must emphasise that this can only be achieved with the help of the whole community.

A handwritten signature in black ink, appearing to read 'D. Horsman', with a long horizontal stroke at the end.

David Horsman

About PIF

Partnership Investment Finance (PIF) is the £37 million fund set up to support Small and Medium-sized Enterprises and Social Enterprises in specific areas of Yorkshire, The Humber and North and North-East Lincolnshire. This map shows the areas in which the main part of the business applying for funding must operate.



PIF combines public and private funds and is dedicated to supporting the economic development of Yorkshire, The Humber, North and North-East Lincolnshire.

Packages range from £3,000 to more than £1 million and are available to businesses based in the Objective 2 region, which covers Leeds and Bradford city centres,

Kirklees, and Wakefield as well as most of North Yorkshire and The Humber.

A commercial fund rather than a grant provider, PIF is looking for companies with productive capacity, firms providing non-local services and those trading outside their local market. This ensures that PIF meets its aim of developing Yorkshire's economic base.

Our willingness to take a higher than usual risk profile means we can assist when conventional sources of financial support are unavailable. PIF helps bridge the funding gap that often holds back fast-growing businesses.

Chief Executive



The last twelve months have been incredibly exciting for the Fund.

We have made excellent progress in delivering much-needed funding to a diverse range of businesses across the region and are well on the way to meeting our objective of increasing business growth in Yorkshire and The Humber as a part of the region's economic strategy.

We achieved a major landmark at the end of 2006, having loaned and invested a total of over £10 million in funding to SMEs and Social Enterprises in the region. That £10 million has helped some 200 companies, and we are all very proud to have made such a positive impact on the economy of Yorkshire and The Humber. Next year promises to be even busier for PIF. Our plans for 2007 will see us reaching out to an even broader range of businesses and I am confident that our investment rate will grow even more quickly than it did in 2006.

Going forward, we have plans to broaden our financial delivery, both geographically and by sector. We will be working very closely with key stakeholders including Government Office and Yorkshire Forward, to deepen our relationships with the numerous local business communities that make up the region. We look forward to continuing to work with the three Business Links, the many Enterprise Agencies and five Chambers of Commerce in our region as well as the professional organisations that have been so important to developing our market, and communicating our message to the marketplace.

Throughout 2006, there was an increasing take-up of our Equity and Mezzanine Funds as the business communities in our region became more aware of the availability of our Funds and the benefits that PIF provide in addition to traditional lending and investments.

Our debt funds, providing small and micro loans to businesses, continue to be a great success with loans being made in every part of our region. The benefits of our interest rate rebate scheme and the funds available for mentoring have ensured that businesses have not only received the finance vital for their growth, but have additionally gained from the added value opportunities that our aftercare services have provided.

As I reported last year, our early successes are now beginning to provide economic benefits to the excellent stock of companies throughout the region. PIF stands ready with more finance for SMEs and Social Enterprises as the region's economy develops, and the ambitious growth plans of those companies build, to require more of our Mezzanine and Equity products.

I look forward with confidence and expect that by the end of 2008, Partnership Investment Finance will have fully invested a total of £37 million business finance to SMEs and Social Enterprises throughout Yorkshire and The Humber. We will achieve this by working with partners with the aim of seeing the region's economic growth rate exceed those of the other regions throughout England.

A handwritten signature in black ink, appearing to read 'Dr J. Harris'.

Dr Jon Harris



Our early successes are now beginning to provide economic benefits to the excellent stock of companies throughout the region.

Partnership Group Chairman



The Partnership Group has almost 70 members. These are the companies and firms who came together in 2001 to “design” the PIF range of financial products.

We needed to ensure that PIF would fill the financing gaps that many expanding companies face; gaps in both equity finance and loan availability. At the same time (we are using public money after all) we could not be accused of displacing ordinary mainstream financial sources where these were already working well.

Now, several years later, the Partnership Group has become a key element in the marketing of the PIF products themselves. We do this essentially by raising awareness. It is surprising that, in spite of the deals done and impact made, PIF has not yet penetrated the consciousness of several “dealmakers” in the region. The level of funds now invested should make good strides in addressing this.

We have held three events with high profile contributors. Ed Balls, Colin Mason (the UK’s leading professor of enterprise studies) and Graeme Leach from the Institute of Directors have all given us the benefit of their judgements about the direction of the UK economy and the immediate prospects for Yorkshire and The Humber. Attendance at all three events has been high. Quite deliberately, we extended our invitation list well beyond the membership of the Partnership Group itself. We were thus able to reach many firms and individuals and bring them into contact with PIF for the first time.

In addition, of course, the “accountability” role of the Group has been continued by its executive committee – on which all three Business Links are represented.

We were worried about the slow pace of deals during PIF’s first two years. As awareness has increased, however, so has the deal flow. If recent successes are anything to go by, PIF is now one of the leading providers of loan and equity finance in the region. And we believe that such successes are being achieved without straying into the field of mainstream lending or equity finance. That is where we always intended PIF should be positioned.

A handwritten signature in black ink that reads "John Watson". The signature is written in a cursive style with a large initial 'J'.

John Watson



PIF is now one of the leading providers of loan and equity finance in the region.

Who's who at PIF?

The Executive:

Chief Executive
Jon Harris

Financial Officer
Graham Huffen

Accounts Officer
Ekanem Archibong

Aftercare Co-ordinator
Julia Chapman

PA to Chief Executive
Anne Vickers

Board of Directors:

David Horsman (Chairman)
James Newman (Deputy Chairman)
Colin Glass (Company Secretary)
Arshad Chaudhry
Martin Hathaway
Alex McWhirter
Ann Oldroyd
John Watson

The Fund Managers:

Managing Director
Miles Stanyard

Risk Capital Team
Anne Blanden, Duncan Gray, Ondrej Okeke, Alison Stevens, Andy Wright

Loan Capital Team
Peter Caffrey, Jonathan Craig, Paul Harrison, Ian Howson, Graham Leake

Office & Investment Administrator
Helen Fox

Investment Administrator
Sara Otten

Social Enterprise

Strong, healthy and productive Social Enterprises form an essential part of a buoyant local economy, and PIF is in a great position to support them in their development.



The difference between Social Enterprises and other local businesses is that, while both contribute to the local economy, Social Enterprises ensure that their profits are invested into the local community.

My role is to ensure that PIF supports the development of these businesses in the Objective 2 areas. As well as actively contributing to the local community, Social Enterprises also fulfil a very important role as service providers to both public and private sectors.

As such, my aim is to ensure that where needs are identified, Social Enterprises are called upon to meet them, and PIF's Funds are made available to help those Social Enterprises meet the growing demands.

For instance, we will be talking to local housing associations and Primary Care Trusts amongst others, encouraging them to look for Social Enterprises to deliver services wherever possible. And where a Social Enterprise is successful and wins a contract that requires them to expand or develop their business, PIF will be on hand to support them.

Many Social Enterprises rely, at least in part, on grant funding and need to find ways of moving into more commercial markets. As a commercial fund, PIF is ideally placed to help them achieve this.

Ann Oldroyd



By the end of 2006 PIF had injected over £10 million into the region.

Financial Highlights

2006 has seen a significant increase in Partnership Investment Finance's deal flow and we are making a major impact in the local economies that encompass the Objective 2 areas of Yorkshire and The Humber.

By the end of 2006, PIF had injected over £10 million into the region, helping more than 200 businesses in their objective of achieving significant growth and increase in GDP.

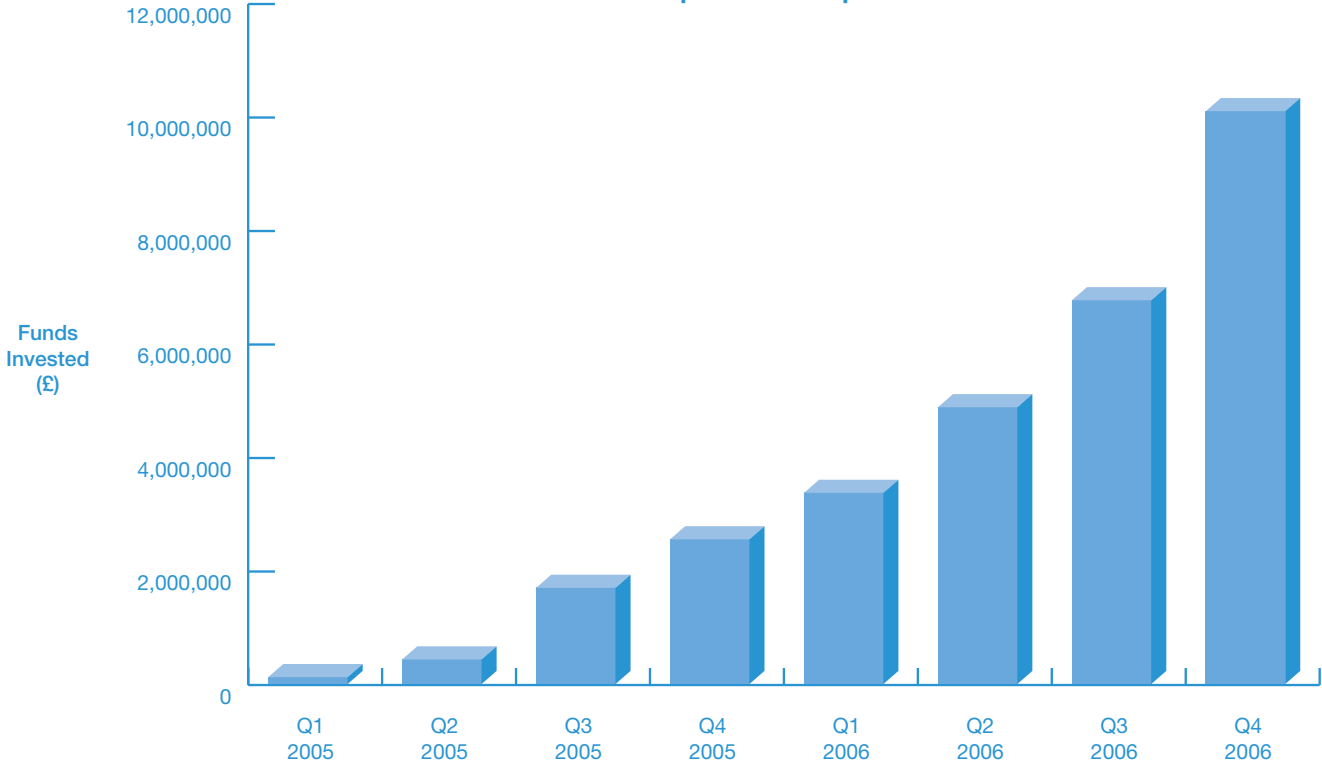
In terms of take-up, Micro Loans have been a popular product, with 129 companies borrowing more than £1.6m, an average of

more than £12.5k each. However, in terms of funds advanced, the Small Loans Fund, with an average deal size of £63k, has assisted 64 companies across the region with loans totalling £4.0 million.

In 2007, we will focus on increasing the deal-flow for our Risk Capital (Equity and

Mezzanine) Funds, which have invested in a number of companies in the region with transactions totalling £4.7m as at 31 December 2006.

Cumulative Investment to 31 December 2006
quarter on quarter

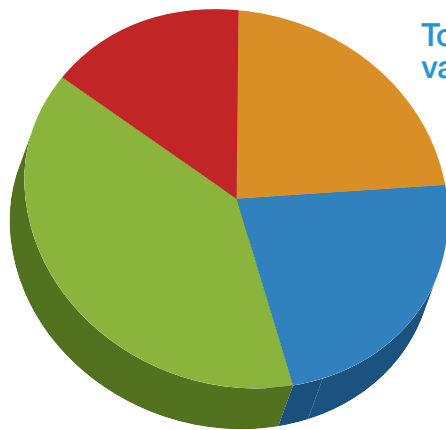


Demographics

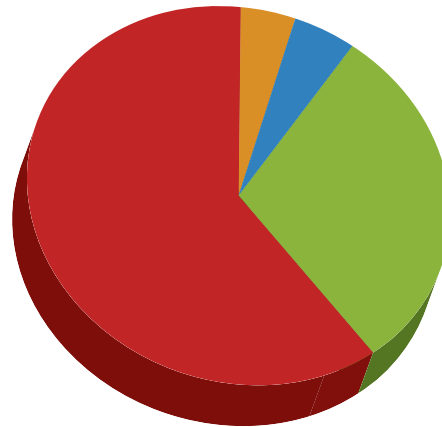
How the Funds have been invested to 31 December 2006

	INVESTMENTS BY FUND TO 2006		
	NO OF CASES	TOTAL VALUE	AVERAGE VALUE
EQUITY	9	£2.3m	£258k
MEZZANINE	10	£2.4m	£235k
SMALL LOANS	64	£4.0m	£63k
MICRO LOANS	129	£1.6m	£13k
TOTAL	212	£10.3m	£49k

Investment by Fund



Total deal value by Fund



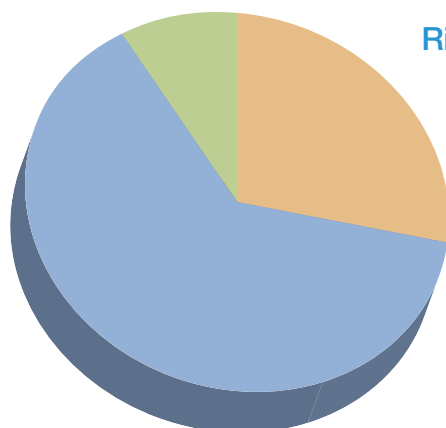
Number of deals by Fund

PIF REGION	RISK CAPITAL	LOAN CAPITAL
Humberside	27.3%	38.5%
West Yorkshire	63.6%	49.4%
York & North Yorkshire	9.1%	12.1%

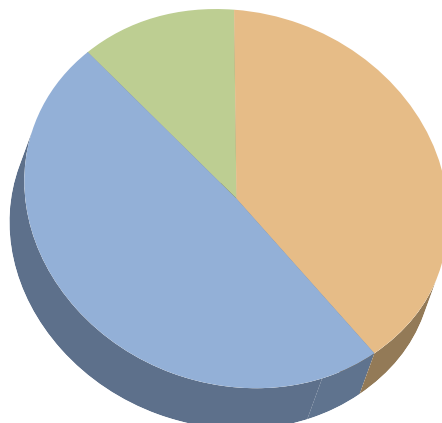
Investment by region

Risk Capital
Mezzanine and Equity Funds

Loan Capital
Micro and Small Loan Funds



Risk Capital

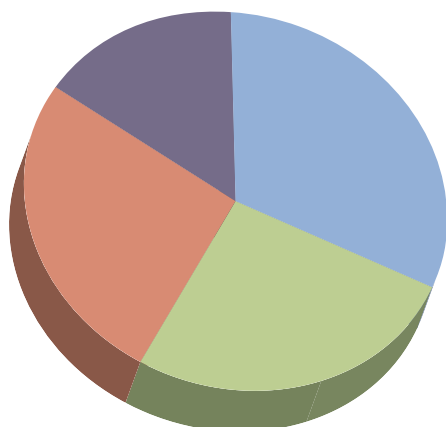


Loan Capital

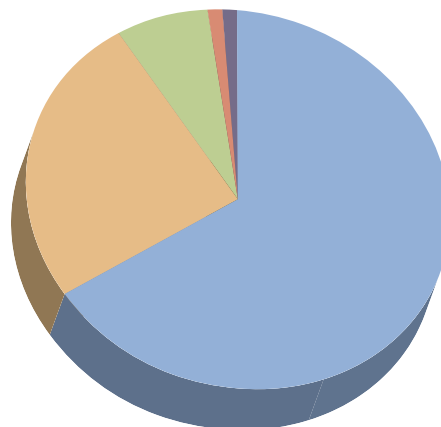
Investment by business stage

STAGE	RISK CAPITAL	LOAN CAPITAL
Start-up	0%	25.6%
Early Expansion	31.6%	65.3%
Follow-on	26.3%	7.1%
Development	26.3%	1.0%
MBI / MBO	15.8%	1.0%

Risk Capital



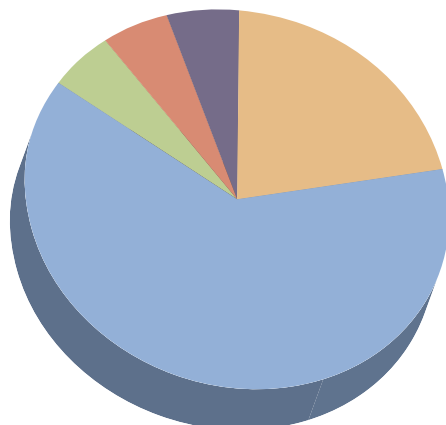
Loan Capital



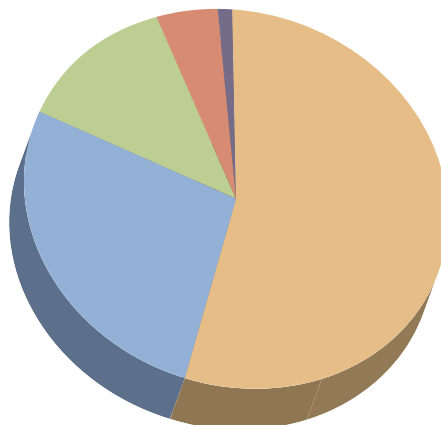
Investment by sector

SECTOR	RISK CAPITAL	LOAN CAPITAL
Services	21.1%	54.4%
Manufacturing	63.2%	27.2%
Internet, Computing & Telecoms	5.3%	12.8%
Industrial Products & Services	5.2%	4.6%
Consumer	5.2%	1.0%

Risk Capital



Loan Capital



Case studies

Trailertech

Scarborough

Total Investment: £800,000

A Scarborough company providing a range of vehicle design, conversion and support services, received three rounds of funding from PIF totalling £800,000.

The company convert specialist vehicles – creating mobile libraries and medical units amongst others – and produce low floor accessible vehicles, allowing operators to comply with the Disability Discrimination Legislation.

The company originally received £550,000 from PIF in 2005, which enabled operations

to expand and develop. Continued success and a good reputation for innovation and reliability led to an increased demand for their services, so much so that Managing Director Rob Miller recently received an additional £250,000 investment from PIF.

Ondrej Okeke, Fund Manager at PIF, said: “Over the past year PIF has seen the company maximise each investment to its full potential. I was impressed at our initial meeting with Robert’s excellent management approach and highly skilled team of designers. The additional

Equity Fund: £300,000

Equity Fund: £125,000

Mezzanine Fund: £150,000

Mezzanine Fund: £125,000

Small Loan: £100,000

funding comes at an exciting and busy time for the company, with several new developments on the horizon.”

LiteStructures

South Kirkby

Total Investment: £365,000

LiteStructures, one of Europe’s leading manufacturers of aluminium structures for the entertainment industry, needed funds to finalise the development of a new arena-scale rehearsal facility for touring musicians.

The venue has proved a great success and has played host to top names like Robbie Williams and Coldplay.

LiteStructures already has a reputation for creating structures for the stage and set industry. It also serves the retail, exhibition, architectural and sports industries, having recently supplied many of the telemetry pods for Formula 1.

Dr Jon Harris, PIF Chief Executive, has praised LiteStructures as “a very successful

Mezzanine Fund: £250,000

Small Loan: £100,000

Micro Loan: £15,000

company that has quickly developed an excellent reputation. The development of their specialised studio adds a further dimension to the business, and fully deserves our support.”

Myfotowall

Huddersfield

Total Investment: £300,000

Myfotowall, a Huddersfield-based company providing unique wall coverings from digital images, received a £300,000 investment from PIF in order to fund its ambitious growth plans.

Myfotowall creates dramatic wall coverings, using images from their own library or supplied by the client. The prints are produced to fit the required space and delivered as wallpaper.

Managing Director Stephen Armitage started the company in 2003. “We approached PIF with a business plan outlining our plans to grow the company on an international scale,” he said.

“The funding from PIF will enable us to meet this demand. I’ll never forget our first international online order, from Bentley Dubai, and the amazing feeling when we posted out the finished product.”

Equity Fund: £300,000

Myfotowall was referred to PIF by their financial advisors. PIF Investment Manager Andy Wright said: “The company has a unique product and we saw a clear business strategy supported by an experienced and ambitious team. Their products are innovative and appeal to both the commercial and domestic markets. We have every confidence they will grow on a national and international level.”

Flexiform

Bradford

Total Investment: £400,000

One of Bradford's most innovative office furniture and design companies, Flexiform has been part of Managing Director Nick Hewitt's life for many years.

Brought up in the business, Nick worked his way up from the bottom and learned the trade, starting off in the finance department. After watching Flexiform's fortunes slowly decline, he led a successful bid to buy the firm back from its then owners.

Nick and his management team saw that to offer customers the maximum in service, Flexiform would need to offer tailor-made solutions to meet the exact needs of each individual customer.

To keep up the good work and continue winning contracts, Flexiform were in

need of funding and approached PIF for £400,000 in the form of combined equity and mezzanine investment.

"The dynamism of the team is what impressed us most about Flexiform," said Miles Stanyard, PIF's Managing Director. "They have developed a good offering and have picked up some excellent clients. PIF has provided funding to give Flexiform the working capital they need to build on this success and accelerate the growth of the business."

Alongside plans to expand showrooms in London and Scotland they have continued to win more and more impressive contracts, with deals to create new office spaces for everyone from the Gambling Commission to property giants King Sturge.

Equity Fund: £100,000

Mezzanine Fund: £300,000



Clearwater Collection

Bradford

Total Investment: £100,000

Bradford-based Clearwater Collection is Europe's largest manufacturer of freestanding baths.

The company counts the Beckhams, Sir Paul McCartney and former Italian Prime Minister Silvio Berlusconi among its satisfied customers.

Clearwater employs more than 40 people and supplies major retailers such as B&Q and Wickes.

The business has taken the £100,000 loan from PIF to help it build on its growing reputation in the US.

Darren Allison, Managing Director of Clearwater Collection, said: "We currently export to 26 countries but our growing reputation for stylish, durable and affordable freestanding baths across the US has focused our attention on that market.

"The loan from PIF will help us improve our logistics across the US and cut our delivery times from months to weeks," he added.



"What people may not realise is the level of support you get from PIF. It's an excellent

scheme and I'd recommend it to anyone looking to grow their business."

Case studies

Fresh Pastures

Wakefield

Total Investment: £65,000

Fresh Pastures, a Wakefield-based company supplying milk to local schools, received £65,000 in loans from PIF.

In addition to its dairy contracts with Bradford and Derby councils, Fresh Pastures also employs local people with disabilities and from disadvantaged backgrounds, helping them back into work. The company was set up in 2006, as a community interest company, by husband and wife team Graham and Sharyn Morley, and grew out of their previous milk supply firm, the Yorkshire Milk Company.

“Our intention in setting up Fresh Pastures has been two-fold,” explains Graham. “Firstly, we are committed to supplying fresh milk to schools. The current debate

on healthy eating for children highlights just how important it is that they regularly receive the essential vitamins and minerals contained in milk. Secondly, as we have a disabled child ourselves, we feel keenly the need to provide opportunities for this section of the workforce. Fresh Pastures addresses both issues.”

25% of Fresh Pastures’ employees are disabled, and the remaining 75% are recruited from the long-term unemployed. Plus, the company not only supplies the milk, but provides it in cartons featuring educational cartoon characters such as the road-safety chicken and the healthy-eating pig.

Small Loan: £50,000

Micro Loan: £15,000

The loans mean that the company can now purchase machinery and use the new equipment to win school contracts.

The couple had initially approached their bank for help but were offered only a £15,000 overdraft. Then they heard about PIF via Business Link. After applying for funding, they received a £15,000 Micro Loan in October 2006 and, subsequently, a £50,000 Small Loan.

“The loans are a fantastic resource for businesses such as ours,” says Graham. “PIF were thorough in their assessment of our company and have provided us with the means for significant future development.”

Wensleydale Foods

Hawes

Total Investment: £60,000

Wensleydale Foods is one of the Yorkshire Dales’ big success stories.

With a passion for cooking and watching her children enjoy a good meal, Elizabeth Guy wanted to share the satisfaction of her family’s mealtimes with the rest of the country.

In 2005 Elizabeth started Wensleydale Foods to produce a range of nutritious frozen ready meals specifically for children. Recognition of Wensleydale Foods was quickly achieved by winning the ‘Regional Food Award for Excellence’ that year.

Wensleydale Foods was launched at just the right time with the demand for healthy food for kids rapidly growing in the UK. The company had become a recognised brand, with Beth Guy’s Little Pies and Susie Guy’s Little Puddings available nationally through Budgens supermarkets and over 80 independent retailers.

The increasing success of the products allowed Elizabeth to start preparations to sign

a contract to supply the Waitrose chain.

With this new contract in the pipeline, the growth of Wensleydale Foods was inevitable. Kitchen facilities would need to be improved and employee numbers would need to be increased to meet the demands of the Waitrose contract.

Wensleydale Foods received a £40,000 Small Loan from PIF in September 2006 with a second tranche of agreed funding of £20,000 drawn down in December. “The money from PIF has given us the security to move forward with confidence,” said Elizabeth.

Lending Manager at PIF, Jonathan Craig, said “Elizabeth is a very impressive person; it was her strength of character as much as the quality of her product that made us choose to fund her enterprise.

“We’re really pleased that we can help her drive the business forward to the national success we hope she will achieve,” he added.

Small Loan: £40,000

Small Loan: £20,000



Prestige Textiles

Keighley

Total Investment: £60,000

Prestige Textiles is a designer label manufacturer based in Keighley, West Yorkshire, that is committed to helping to minimise the trade in counterfeit designer goods.

After three years of research, consultation and experimentation, Managing Director Zahir Ahmed has created and patented a unique woven label containing an invisible code to certify the authenticity of designer garments.

The benefits of the label are obvious to both consumers and manufacturers and

guarantee that designer clothes are genuine. However, the company needed funding to reach the next stage of development and production.

Prestige Textiles were introduced to PIF at an ATL (Yorkshire) Ltd 'Meet the Experts' seminar.

Prestige successfully secured £60,000 funding. The funding means that Prestige has been able to update standard weaving machinery and purchase a Label Cut and Fold Rotary machine.

Small Loan: £60,000



ICW Modular Glazed Systems

Wakefield

Total Investment: £15,000

Wakefield-based ICW Modular Glazed Systems makes a range of bespoke, specialist glass and glazing products to high safety and environmental standards.

ICW's products are exported around the world, and clients include Corus and Kew Gardens in London. Working with Sheffield Hallam University, ICW developed a new and innovative product that quickly started to attract very strong

interest and led Managing Director Margaret Wood to be named as a runner up at the British Female Inventor of the Year Awards.

Banks and conventional funding bodies were reluctant to back an untried product, so ICW approached PIF.

A Micro Loan was agreed and provided the support needed to complete development work and bring the product to market.

Micro Loan: £15,000



Hollywood Bollywood

Hull

Total Investment: £15,000

Working with the local community in Hull, Hollywood Bollywood organises and manages dance shows and events.

The company specialises in Bollywood (modern and movie-style Indian dancing) as well as hip hop and street dancing.

The loan will increase the opportunities available to dancers, allowing Hollywood Bollywood to teach different styles of dance according to students' individual needs.

The £15,000 Micro Loan has allowed Hollywood Bollywood to expand the business from the local region to a national market. No longer just working in Hull, workshops have taken place across the country.

Amit Tripathi, Director of Hollywood Bollywood, said: "The additional funding means we can now make studio space available at realistic rates to train, rehearse and develop our dancers."

Micro Loan: £15,000



Working with you to grow Yorkshire's economy

Partnership Investment Finance (PIF), the £37 million fund, has been set up specifically to support the economic development of Yorkshire and The Humber by helping small and medium sized businesses in eligible areas of the region.

For more information visit our website:
www.partnershipif.co.uk

Or call us to request an information pack:
01924 237850

Partnership Investment Finance delivers funding through four sub-funds:

Micro Loans Fund

Investment range: up to £15,000

Small Loans Fund

Investment range: £15,000 – £100,000

Mezzanine Fund

Investment range: £100,000 – £250,000

Equity Fund

Investment range: £100,000 – £1 million

This project has been part-funded by the European Social Fund and the European Regional Development Fund



Supported by



Unit 1, Silkwood Business Park, Fryersway, Ossett, Wakefield, WF5 9TJ

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Partnership Investment Finance is the trading name of Partnership Investment Fund which comprises four sub funds each of which is managed by YFM Venture Finance Limited which is authorised and regulated by the Financial Services Authority and is part of the YFM Group. Partnership Investment Fund Limited currently provides access to an Investment Aftercare Scheme which is not subject to Financial Services Authority regulation.