

Financial Highlights

| Year Ended March | 2003 £000's | 2002 £000's |
|-----------------------------------|----------------|----------------|
| For the year | | |
| Income | | |
| Grants and Contributions | 386 | 165 |
| Fees and Other Income | 17 | 961 |
| Investment Income | 832 | 235 |
| | 1,236 | 1,361 |
| Surplus/(deficit) before taxation | 254 | 483 |
| Taxation | 39 | -61 |
| Retained surplus/(deficit) | 293 | 422 |
| Average number of employees | 11 | 5 |
| At year end | | |
| Net assets employed | | |
| Fixed assets | 87 | 53 |
| Investments | 50 | - |
| Debtors | 184 | 1,090 |
| Investments and Deposits | 20,481 | 20,165 |
| Cash at bank | 34 | 1,670 |
| Liabilities | (20,487) | (22,923) |
| | 349 | 55 |
| Reserves | | |
| Retained surplus c/f | 349 | 55 |



These summary financial statements are a summary of information contained in the South Yorkshire Investment Fund Limited Annual Report and Financial Statements for the year ended 31 March 2003. They are prepared to give partners and stakeholders a summary of the progress being made by South Yorkshire Investment Fund Limited. They do not contain sufficient information to allow as full an understanding of the results and state of affairs of the South Yorkshire Investment Fund Limited businesses as would be provided by the full audited Annual Report and Financial Statements. A copy of the full Annual Report and Financial Statements for the year ended 31 March 2003, which contains an unqualified Auditors opinion, is available on request from the Company Secretary at the registered office of South Yorkshire Investment Fund Limited.



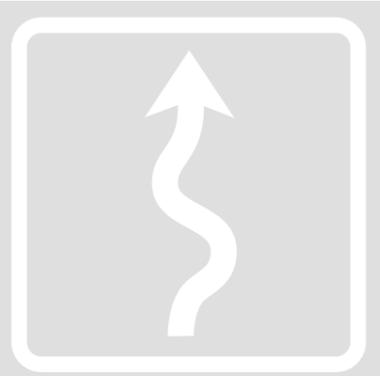
Annual Report 2003



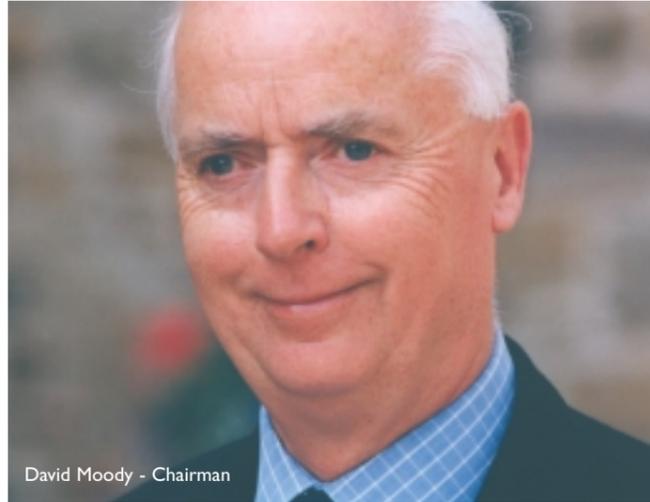
teamwork



teamwork



direction



David Moody - Chairman



Tony Goulbourn - Chief Executive



vision

Chairman Report

I was delighted to take on the challenge of leading this important project for South Yorkshire.

This is my first annual report and it gives me great pleasure to present this early snapshot of the Fund.

We have made good progress since the formation of the Fund although external factors such as low investment confidence have meant progress has been slower than anticipated.

The challenge now is to push forward and increase our rate of investment so that we can meet our vision of the Fund.

David Moody

Chief Executives Report

The first year has been one in which we have learned much about our customers and our market and I believe we have made a good start in establishing the foundation of the Fund.

This has taken much longer than we expected and we are only now seeing the South Yorkshire Investment Fund brand recognised as the place to go.

The process has not been easy as the message of "gap finance" is complex, when the need is to keep it simple. The expectations of the business community have been high, which is good. However, the expectations that the Fund will provide grants and soft-loans have been disappointed. Our message remains:

We fill gaps in the market with high-risk finance invested on a commercial basis.

A tough message, but one that we have to maintain if we are to achieve the ultimate goal of a permanent fund for South Yorkshire. This must be a driving force for all of us involved.

This latter point is central in that the Fund requires that all involved understand that this is about taking important long-term perspectives, based on sound business principles. This and the need to be ambitious and positive are the values I would like to drive if we are to be successful.

The enclosed report puts some flesh on these early bones of the Fund and provides the context for further debate within the Partners Group. This debate must also extend to our investors, customers, stakeholders, suppliers and employees. I very much look forward to this dialogue and what we can achieve from increased awareness and working together.

Tony Goulbourn



Review of the year

South Yorkshire Investment Fund is now well into its second year and we are delighted with the variety of businesses we have helped – new technology, manufacturing, medical and service industries.

As with many new organisations we are now beginning to see the main components of the business coming together and over the past twelve months we have achieved much including establishing the Fund's brand and ensuring that our position in the market place is understood by both investors and investees.

We have made much progress in working towards our vision of where we want to be by the year 2006.

Our Vision for 2006

- **We will have made a difference to the way in which businesses access finance in South Yorkshire.**
- **We will have established a position as a successful Financial Institution within South Yorkshire and our chosen markets.**
- **We will have produced the required returns for our investors; ERDF, Barclays, DonBAC, and South Yorkshire Pension Fund**
- **We will be recognised as making a major contribution to the economic regeneration of South Yorkshire, assisted by the investment of Objective I funding.**
- **We will have established excellent alliances with intermediaries and manage successful networks covering mentoring, business angel and professional networking**

Although there is still much work to do in order to accomplish our vision and there is certainly a need to take a long-term view, real progress has been made in achieving our principal objective of meeting the financing needs of small and medium enterprises in the South Yorkshire region which are currently not being met from other sources.

The Fund's Strategy

Since the formation of the Fund we have worked hard to create partnerships with local companies and firms of advisors to ensure that we address the difficulties that SMEs experience in raising finance in the region. The work we have done in this area will go a long way towards accomplishing our mission of becoming the premier provider of high-risk gap finance for growing small and medium businesses in South Yorkshire.

We have also made progress towards our secondary objective of supporting the entrepreneurial culture of South Yorkshire with practical help and management resources through our Money with Management programme. Money with Management provides a series of supporting activity and helps to improve the supply of third party investment funding and support in the region from Business Angels through Capital Network.

Fundamental to the success of the Fund is of course the level of demand for gap finance in South Yorkshire. From

the inception of the Fund we have continuously undertaken research to enable us to assess the demand for our loans and equity linked products. This was done originally through the Partners Group, itself a major driver of the Fund, and more recently through a special Intermediary Research project. Feedback from research has influenced us greatly and has helped us to effectively segment our market and improve our product offering to meet

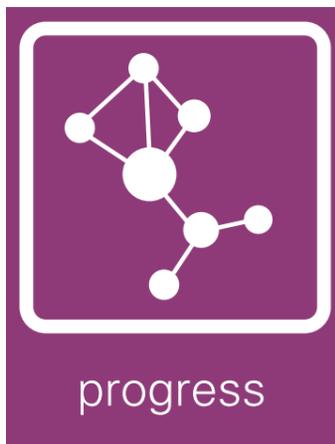
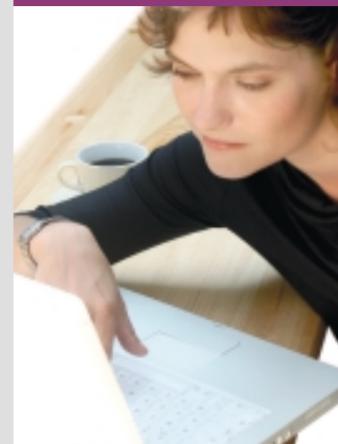
demand; we continue to carry out research most latterly in partnership with Barclays. To this end, we are delighted to announce our proposal to increase the maximum level of investment to £2.5m

We also benefit from benchmarking and sharing good practice with the other three regional funds in the Alliance. The Alliance consists of the four Objective I regions of the UK - Merseyside, South Yorkshire, Wales and Cornwall. The project is an opportunity to take a wider look at the different approaches to marketing, including strategy, positioning and resourcing. A number of key areas have been identified where we can share best practice and even collaborate, including research, IT systems and the development of client relationship management.

Our vision for developing an e-business to meet the demands of both clients and stakeholders continues and is driven by the desire to improve service and operational excellence. E-business is critical to the way the Fund stimulates appropriate and quality demand and we continue to develop e-marketing to support the strategic goals of the operation. The Fund is committed to working with the professional sector to improve the flow of information and we communicate electronically with our investors, customers, stakeholders and suppliers.

The Fund recognises the need to continuously engage with both the professional community and businesses in the area and although intermediary marketing has been the main focus of our activity, the Fund has taken every opportunity to communicate with SMEs through direct marketing, events and presentations often jointly with our partners and stakeholders. Customer segmentation remains a priority and we understand that in order to be most effective our messages need to be both highly targeted and customised.

The Fund continues to work with the community and voluntary sector through a separate fund dedicated to supporting social enterprises. We have £2 million of loan finance ring-fenced to support this activity in the region and through a combined marketing approach with the Key Fund who award grants and loans in this sector we hope to jointly optimise resources and eradicate duplication of effort in this important area.

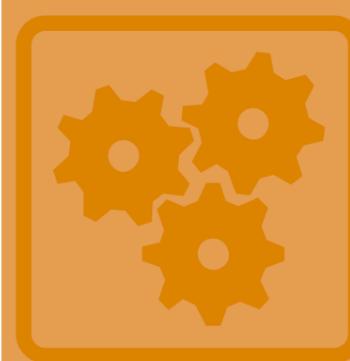




ambition



progress



teamwork



ambition

The Organisation

Central to the organisation of South Yorkshire Investment Fund is the need for an integrated approach to investment funding. It is the aim to integrate investment decisions with those taken on grant funding whilst enhancing the investment package with management support by helping to provide skills that are at the heart of the successful business. The 'Money with Management' project sets out an integrated service to business clients, providing a supporting activity which helps clients directly but also promotes demand and helps improve the supply of third party investment funding and support through business angels. We also work closely with the Invest For Growth 2 project team to help bring together a complete funding package.

We have worked hard to invest in quality businesses with good growth potential and even though we take bigger risks than traditional commercial lenders we do need to make a return on our investments. This is so that when the Objective One programme ends we will have generated sufficient returns to enable us to continue to support businesses independently and to improve the South Yorkshire's economy.

The organisational structure of the Fund is complex with specialist Fund Managers appointed to run each of the main funds. The management process is supported through a series of groups that make connections with the business clients and stakeholders, such as the accountancy and legal professions and the banks. The Partners Group, a major driver of the Fund has been a source of valuable guidance.

It has been a challenge bringing together people from different organisations but real progress has been made to create a common vision, common values and a culture that all Managers and staff support and promote.

The Operations

The performance and operational statistics highlight the magnitude of the task and support the view that the SYIF business model is both complex and challenging. In our first year we have operated well below the targets set out in the initial business plan, however, the initial business plan and targets were based on a full operating year when the reality is that the Fund did not actually begin to make investments until the mid-year and this should be taken into account when assessing our performance.

An important issue continues to be the spread of investments in the Region and the location statistics highlight the prominence of applications and investments in the Sheffield area.

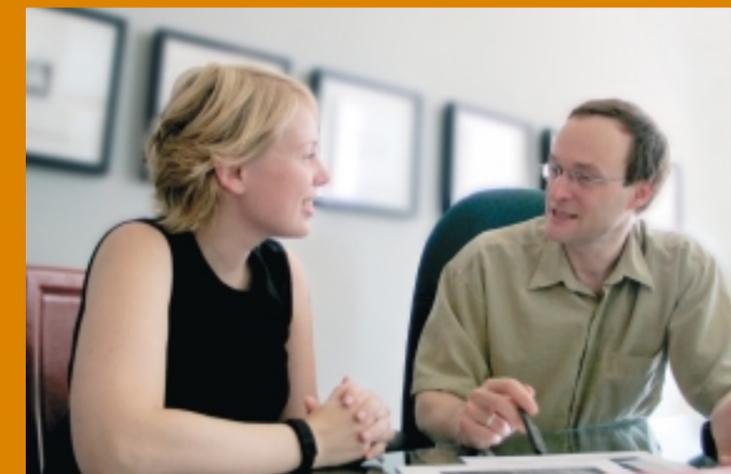
This of course is intrinsically linked to the demand issue and not surprisingly the figures for investments correlate closely to the number of target businesses in the boroughs. In order to redress the balance to meet the targets in our business plan we have introduced financial incentives to those businesses and mentors in the Coalfield area to encourage submission of successful applications.

The Fund completed 41 investments in the 15 months to 31 March 2003, investing £2,338,000. The majority of the investments were made by the Small Business Fund who made 36 investments amounting to £1,538,000 comprising of £1,533,000 of loan investments and £4,000 of equity investments.

The Capital Fund made 2 equity investments totalling £375,000 and the Development Fund made 3 loan investments totalling £425,000. Capital Network completed five successful matches ranging from £20,000 to £60,000 in a diverse range of businesses including mail order and an internet based parts catalogue.

Looking forward, performance continues to improve and recent product development combined with increased marketing efforts across the wider intermediary community are having a real impact. The number of investments for quarter ending 30th June 2003 is at 75% of target and the investment pipeline continues to be healthy. Our first years performance was certainly disappointing, but we have applied what we have learnt in the first 12 months to the future development of the business. We have reacted to a challenging rapidly changing market by enhancing our product offering and re-aligning our market position in an attempt to fill the finance gap.

Our challenges for this year continues to be striking a balance between the need to make a commercial return and economic contribution of the European Regional Development Programme (Objective 1) with the need to realise the benefits of an integrated approach against the more narrowly focussed issues of Fund Management.





Performance and Operational Statistics Summary

Key Performance Indicators

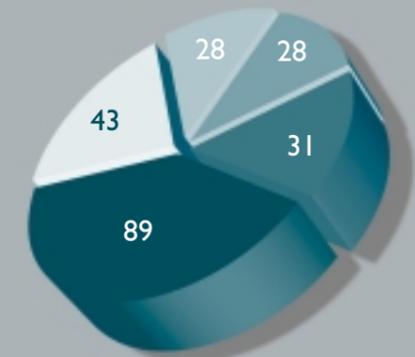
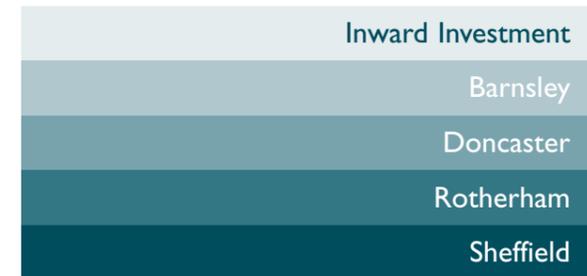
as at 31 March 2003

| Small Business Fund | To Dec | Jan | Feb | Mar | YTD Actual |
|---------------------------------|--------|-------|-------|-------|--------------|
| No. of Investments | 31 | 2 | 0 | 3 | 36 |
| Value of Investments - £000 | 1,313 | 95 | 0 | 130 | 1,538 |
| No. of Applications | 108 | 4 | 8 | 7 | 127 |
| Value of WIP | 790 | 710 | 1,117 | 1,175 | |
| Development Fund | | | | | |
| No. of Investments | 2 | 1 | 0 | 0 | 3 |
| Value of Investments - £000 | 325 | 100 | 0 | 0 | 425 |
| Capital Fund | | | | | |
| No. of Investments | 2 | 0 | 0 | 0 | 2 |
| Value of Investments - £000 | 375 | 0 | 0 | 0 | 375 |
| Capital/Development Fund | | | | | |
| No. of Applications | 84 | 4 | 2 | 2 | 92 |
| Value of WIP | 7,620 | 7,260 | 8,235 | 5,310 | |
| All Funds | | | | | |
| No. of Investments inc synd | 35 | 3 | 0 | 3 | 41 |
| Value of Investments - £000 | 2,013 | 195 | 0 | 130 | 2,338 |
| No. of Approvals | 44 | 1 | 0 | 8 | 53 |
| Value of Approvals | 2,668 | 40 | 0 | 1,577 | 4,285 |
| No. of Applications | 192 | 8 | 10 | 9 | 219 |
| Value of WIP | 8,410 | 7,970 | 9,352 | 6,485 | |
| No. of Complaints | 9 | 0 | 1 | | 10 |

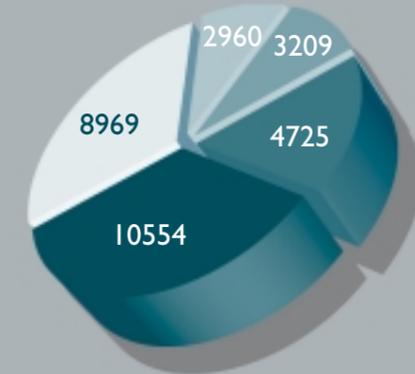
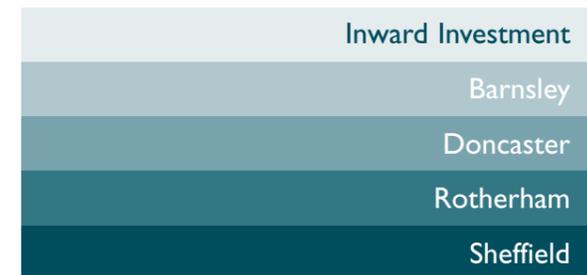
Location Statistics

as at 31 March 2003

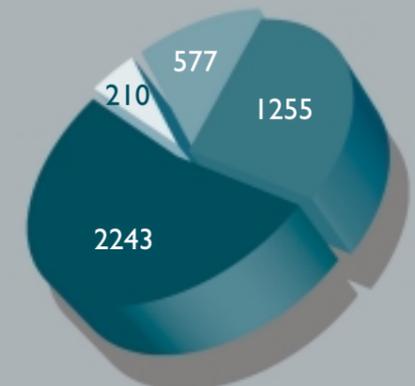
**Applications by Business Location
(Number) - Total 219**



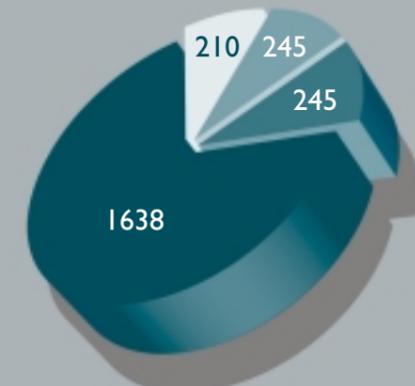
**Applications by Business Location
Value £000 - Total £30,417k**



**Approvals by Business Location
Value £000 - Total £4,285k**



**Investment by Business Location (£000)
Total £2,338k**



Value of Approvals and Investments

as at 31 March 2003

| | Small Business Fund | | | | Development Fund | Capital Fund | Total (excludes syndications) |
|---------------------------------------|---------------------|-----------------|------------|--------|------------------|--------------|-------------------------------|
| | Loans up to £50k | Loans over £50k | Social Ent | | | | |
| | Actual | Actual | Actual | Actual | Actual | Actual | Actual |
| Investments | | | | | | | |
| Value invested - £000 | 1,348 | 190 | 0 | 1,538 | 425 | 375 | 2,338 |
| No of SMEs assisted | 34 | 2 | 0 | 36 | 3 | 2 | 36 |
| No of start ups assisted | 5 | 0 | 0 | 4 | 0 | 0 | 5 |
| %age start ups assisted | 15% | 0% | | 11% | 0% | 0% | 14% |
| Average investment | 40 | 95 | | 43 | 142 | 188 | 65 |
| Output Measures (Forecast) | | | | | | | |
| Jobs created | 220 | 9 | 0 | 229 | 10 | 5 | 230 |
| Jobs safeguarded | 423 | 19 | 0 | 442 | 81 | 36 | 511 |
| Sales generated | 24,358 | 747 | 0 | 25,105 | 1,647 | 1,147 | 26,087 |
| Jobs created per £100k invested | 16 | 5 | | 15 | 2 | 1 | 10 |
| Jobs safeguarded per £100k invested | 31 | 10 | | 29 | 19 | 10 | 22 |
| Sales growth per £100k invested (000) | 1,807 | 393 | | 1,632 | 388 | 306 | 1,116 |



Notes

The individual Fund numbers include syndications, hence the total is less than the sum of individual numbers.
The Sales Generated 'Actual' figure represents the total forecast increase in turnover by year 3 following investments

All Funds



Small Business Fund



Development Fund



Capital Fund

