

South Yorkshire
Investment Fund

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South Yorkshire Investment Fund Ltd is a company limited by guarantee (Registered No 3936065). South Yorkshire Investment Fund comprises three sub funds, the South Yorkshire Investment Capital Fund, the South Yorkshire Investment Development Fund, which are each managed by Yorkshire Fund Managers Ltd, and the South Yorkshire Investment Small Business Fund, which is managed by UKSE Fund Managers Ltd. Yorkshire Fund Managers Ltd (Tel 0114 280 0920) and UKSE Fund Managers Ltd (Tel 0114 270 0933) are each regulated by the Financial Services Authority. South Yorkshire Investment Fund also provides a number of services including Mentorbank, and provides access to South Yorkshire Microloan and Yorkshire Association of Business Angels, none of which are regulated by The Financial Services Authority.

One of the Board's primary goals has been to ensure the Fund takes a business-like approach to what it does. I am happy to say that during the first two years, through a period of intense pressure, this test has been passed. I believe this is good news for business and our investors.

Trading conditions have not been the most favourable for the Fund. The economic downturn, with the related reduction in investment and venture capital activity, has been severe. To compound this, the Fund is competing in a market where grant dependency remains significant and expectations have been fed by a series of Government grant regimes. I am glad to say, however, that these pressures are reducing and that working jointly with Business Link has produced a more sensible balance between investment and grant.



Chairman's Report

We have weathered this pressure well and continue to improve the service we provide to businesses in South Yorkshire. The main challenge that the Board has continued to tackle has been to invest the Fund effectively. This means striking the right balance between the levels of investment we make and obtaining the right return on these investments. We will continue to encourage Fund Managers to take reasonable risks, whilst ensuring the longer term viability of the investment funds.

I believe strongly that the Fund can fuel, in a very practical way, the kind of regional economic renaissance which has been talked about for some time; the benefits of which are now starting to become clear. It is essential that the Fund and our partners maintain the economic momentum for the long-term good of the region. We look forward to their continued support as we make a difference in South Yorkshire.

David Hooley



Value of approvals and investments

Results to 31 March 2004

Investments

Small Business Fund	£4,117,000
Capital Fund	£870,000
Development Fund	£1,680,00
Total of investments	£6,667,000

Output Measures

Jobs created	222
Jobs safeguarded	1157
No of SMEs assisted	124
No of start-ups assisted	25

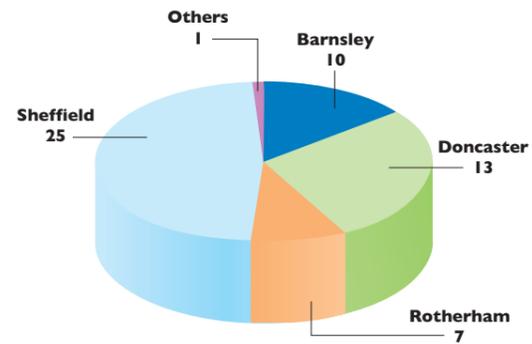
The above figures are based on evidenced outputs from Money with Management and include results from The Key Fund and Capital Network/YABA

Financial highlights

Year ended March	2004	2003
Income		
Grants and contributions	701	386
Fees and other income	54	17
Investment income	<u>714</u>	<u>832</u>
	1469	1235
Surplus before taxation	236	254
Taxation	10	39
Retained surplus	246	293
Average number of employees	10	11
At year end		
Net assets employed		
Fixed assets	50	87
Investments	-	50
Debtors	177	184
Investments and deposits	18590	20481
Cash at bank	296	34
Liabilities	<u>(18518)</u>	<u>(20487)</u>
	595	349
Reserves		
Retained surplus	595	349

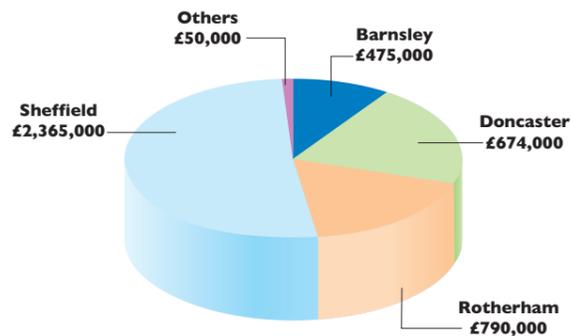
These summary financial statements are a summary of information contained in the South Yorkshire Investment Fund Limited Annual Report and Financial Statements for the year ended 31 March 2004. They are prepared to give partners and stakeholders a summary of the progress being made by South Yorkshire 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 2004, which contains an unqualified Auditors opinion, is available on request from the Company Secretary at the registered office of South Yorkshire Investment Fund Ltd.

Location statistics to 31st March 2004



Number of investments

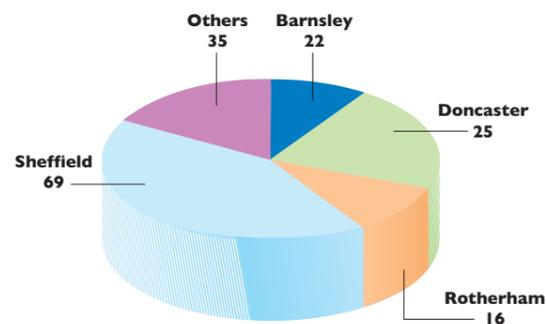
BARNLSLEY	17.9%
DONCASTER	23.2%
ROTHERHAM	12.5%
SHEFFIELD	44.6%
Others	1.8%
Total	100.0%



Value of investments

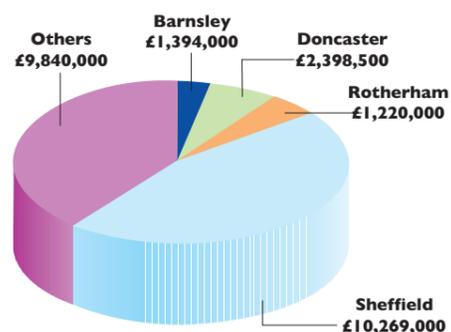
BARNLSLEY	10.9%
DONCASTER	15.5%
ROTHERHAM	18.1%
SHEFFIELD	54.3%
Others	1.1%
Total	100.0%

Approvals by business location



Number of applications received

BARNLSLEY	13.2%
DONCASTER	15.0%
ROTHERHAM	9.6%
SHEFFIELD	41.3%
Others	21.0%
Total	100.0%



Value of applications made

BARNLSLEY	5.5%
DONCASTER	9.5%
ROTHERHAM	4.9%
SHEFFIELD	40.9%
Others	39.2%
Total	100.0%

My report represents the first full year of investment and reflects the time it has taken to establish the concept of a new Fund. It has been a slow start, but the Fund has now begun to gain momentum (over 100 investments) - which will continue to grow with the market and the economy.

Our customers and the intermediary market continue to tell us that the Fund plays a key role in the region. To meet the changing needs of our customers we have made efforts to be more accessible and better understood. I believe we have made huge strides in this area, building relationships and developing our website as a place to be informed (www.syif.com). I fully recognise there is still much to do in improving our service and image and clarifying the South Yorkshire Investment Fund brand.



Chief Executive's Report

However, we must not forget that the Fund was set up to provide a commercially disciplined approach towards investment. In part, because this makes good business sense, but mainly because the Fund must make a return on capital to meet the demands of our investors and to create a sustainable fund for the region beyond Objective 1.

Balancing the needs of investors with those of businesses remains our biggest challenge. We have made real progress in both areas this year and as a result we have established a solid foundation on which to build the Fund for several years to come.

I am pleased to see that Money with Management has made an impact on the market. The Mentorbank programme has continued to develop and add value. We passed the 100th placement some time ago and Mentorbank continues to support the development of management which is critical to business growth.

In summary, the Fund has made good progress towards all of our strategic goals. Over the coming year, the need to maintain and accelerate this progress is our priority.



The South Yorkshire Investment Fund team

The Fund operates through a Board of Directors, chaired by David Moody.

The executive consists of a small team which provides the back-up to the investment funding in finance, marketing and e-business, supporting our team of professional investment managers, provided through two Fund Managers. The challenge has been to integrate these component parts into one organisation, under one brand.

David Moody

David Moody has spent most of his working life in the Sheffield special steels industry, first with United Steels and later as Chairman and Managing Director of Spartan Sheffield Limited. He is Chairman of J Shipman Properties Limited, and has Business Angel interests. He is a member of council and former President and Director of the Sheffield Chamber of Commerce and Industry. David is a Sloan Fellow of the London Business School.

Michael Woodhead

Michael Woodhead, aged 54, was one of the founding Directors of BWD Securities PLC, the financial services Stock Market listed company.

He has had many Public Company Board appointments including Chairman of Birkby PLC, the property company, Tay Homes PLC, Jerome PLC and Fairway Foods PLC.

Mike Patterson

Mike has worked for Manor & Castle Development Trust since its inception in 1997. He is responsible for the funds that the Trust manages for the wider South Sheffield area - around £10m annually. Mike chairs the Social Economy Loan Panel. Prior to his involvement in regeneration he worked for two different blue chip companies for nine years and has also worked in the Civil Service.

Tony Parsons

Tony Parsons has spent over 35 years in the banking profession and was formerly the Director of Commercial Banking at the Royal Bank of Scotland in Sheffield before which he was Director for Corporate Banking at Nat West. He is a trustee at Magna, the science education centre and Help a Hallam Child, Sheffield.

Alex J McWhirter

Alex McWhirter is Head of Enterprise in the Business Development Directorate at Yorkshire Forward. Alex's responsibilities include Venture Capital Funds including the main RDA linkage with the Regional Venture Capital Fund, the Partnership Investment Fund and South Yorkshire Microloan Fund.

Previously, Alex has worked at Scottish Enterprise and with Scottish Trade International. Alex is a professional engineer, and spent 11 years working in the engineering industry.

Julie Kenny

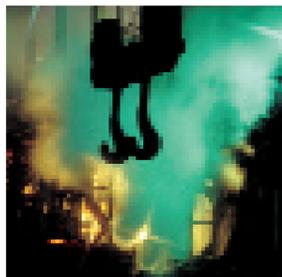
Julie Kenny is major shareholder and Managing Director of Rotherham based Pyronix Limited. A qualified litigation lawyer she has worked in both local authority and in private practice. She is Chair of Business Link South Yorkshire; Rotherham Partnership and the South Yorkshire New Deal Employers' Coalition. Julie is a Director of the British Security Industry Association and on the Boards of: Yorkshire Forward; Rotherham Chamber and South Yorkshire Partnership.

In recognition of her contribution to the region's business and industry, Julie was awarded a CBE in the 2002 New Year's Honours List.

Brian Leach

Brian has had a forty year career with Barclays Bank transferring to Yorkshire to take up the role of Business Centre Manager in Doncaster and culminating in his appointment as Head of Corporate Business in South Yorkshire.

He has served on the Council of the Chambers of Commerce in Barnsley and Doncaster, was a founder director of Donbac Ltd, is Chairman of Doncaster Venture Capital Ltd, and was a founder director of SYIF. In addition he serves as a Non Executive Director of three companies in South Yorkshire.



Focus on business

SYIF provided support to a wide range of companies during the year. Funding was put to many uses, including the launch and marketing of new products, purchase of new equipment or refurbishment of premises. In some cases our support secured employment or paved the way for new jobs.

In August this year SYIF reached an important milestone with its 100th loan from the Small Business Fund of £100,000 to Hydra Mining Tools International Ltd. The funding supported the launch and marketing costs of a water-cooled cutting tool for the mining industry which is the first of its kind to be successfully developed and will reduce the risk of explosion and dust pollution in the cutting process. The system is the result of ten years of development and sales will be targeted at Hyrda's key export markets of South Africa, the United States and Australia.

DESQ Ltd, a company that began as a one-man band in 1998 and now employs 20 people, received £50,000 from the Fund. The company creates a variety of learning materials and educational games for CDs, the web, virtual learning environments and print, covering subjects such as numeracy, literacy, key skills and other academic and vocational curricula. Clients include Channel 4, the BBC, the British Council and National Learning Network.

Through a combination of equity and loans £500,000 was made available to Springer Rapid Industries Limited, a start-up engineering business looking to raise £3.2m and create 85 jobs in South Yorkshire. The company is planning the UK's most advanced CNC machining and rapid tooling facility for large engineered components. SYIF's equity investment, combined with attractive interest rate rebates and a capital repayment holiday, provided Springer with a solid financial base in the early stages of its growth. Indications are that Springer is well on the way to achieving its first year sales target and long-term objective of building a profitable £6m+ turnover business in the manufacturing heartland of South Yorkshire.



2003 - 2004 - an Update

■ **Investment** The Small Business Fund has continued to establish a niche in the market and is now investing the equivalent of £2.5-3m per annum. The Development and Capital Funds have continued to find it tough to find quality projects, which is general across the industry. However, there are signs that the market is lifting and to reinforce this point, from a cumulative investment position of £2.5m up to the end of March, we are looking at a combined Capital/Development Fund Investment in the region of £4m for the current financial year and an expectation that this will grow rapidly.



■ **Mentorbank** has continued to grow and has provided mentoring and NED support to over 120 businesses. It now boasts over 400 members covering almost every sector and skill base. In addition to providing support to clients post-investment, the Mentorbank can now also provide pre-investment assistance for clients that require help with business plans and detailed applications. This move is an important boost to accelerate quality deal flow and helps to cement relationships with professional intermediaries.



■ **Microloan** The SYIF team provide support to help the Microloan Fund operate at maximum efficiency. The £2m fund offers small loans of under £15,000 to a vast range of businesses in the region.

■ **Social Enterprise** We work closely with the Key Fund who play a lead role in providing loan and grant finance for small businesses in the voluntary and community sector. We also support demand from the sector for larger investments.



■ **Capital Network and Business Angels** After discussions with the Yorkshire Association of Business Angels (YABA) it was agreed to subsume Capital Network into YABA. The Capital Network Business Angels were consulted and agreed to make the change. SYIF have retained contractual control over the process to ensure that South Yorkshire maintains access to this form of finance. The Fund continues to be committed to working closely with Business Angels. Business Link help to coordinate the activity.

■ **Pro-South Yorkshire** We are pleased to be a founding member of the new initiative which was launched early this year and is rapidly gaining momentum and membership throughout the region. The project is aimed at raising the profile and prominence of the business, professional and financial services companies as part of the overall cluster development strategy being led by Renaissance South Yorkshire. This sector has significant development opportunities in terms of both new inward investment, as well as indigenous growth.

■ **Product Development** Gaps remain in the market and the Fund is working hard with partners like Yorkshire Forward and Objective 1 to develop solutions. Examples can be found in work on the seedcorn fund which fills the important early-stage investment needs of the market and an equity guarantee. This approach will encourage Business Angel finance and we hope to pilot it soon. Again this addresses the needs of early-stage business development which is so important to South Yorkshire.

Our strategy - how we do business

The Fund was created to assist the development of business investment in South Yorkshire. The strategy has been to move away from grant-aid to one which is more closely connected to the commercial market. The Fund is designed to fill finance gaps in the market in addition to providing help for businesses enabling them to access support through mentoring. These are processes that complement, rather than replace, the existing market.

It is important to remember that the Fund takes a commercial approach to investment. This is a requirement both of our investors and financiers. However, it is also about providing a sustainable fund that will be available to businesses long after the European monies have disappeared. This message is important and sets us apart from the agencies providing grants.

The Fund's principal strategy is to support the financial needs of small businesses in South Yorkshire. We will continue to fill gaps where businesses cannot find the finance they need to grow. We also need to work with partners to increase the level of investment in South Yorkshire. The Fund can now invest from £15,000 to £2.5m; this means that we can offer businesses greater flexibility.

Equally important is to be customer-focused: balancing the needs of businesses, their advisors and our investors. Over the last two years, we have learned how important it is to listen and respond to the needs of our customers. As a result, we have made changes to the main financial products and the way that these are supported. These changes ensure the Fund's continued attractiveness and relevance to businesses, the success of which is reflected in a growing demand.

The strengthening of our relationships with intermediaries has been critical in helping us to better understand the needs of the market and for them to gain an understanding of how we can operate.

The continuous development of quality and range of our service is essential for our success. The Fund is still young and has learned fast, but there is still more to learn. It is imperative that we work with our partners to make further improvement in the way we operate. Some of the issues we are tackling are:

- e-business - increasing the use of the web to do business;
- improving our response times;
- working with intermediaries to assist businesses make ready for investment.



Objectives and Priorities for the coming year

It is important to stress that the Fund is a ten-year fund - with an investment period up to the end of 2008. In other words, while it is vital to ensure that we increase the rate of investment, there is time to make the Fund a success.



Main priorities for the coming year are:

- to continue to establish and position the Fund; and
- to generate more demand for our services.



The objectives are to meet this year's investment targets, which are:

■ Small Business Fund	-	£ 2.9m
■ Development Fund	-	£2.5m
■ Capital Fund	-	£1.5m
■ Value added sales		£23m
■ Business assisted		90
■ Jobs created		174
■ Jobs safeguarded		480
■ Business start ups		10

Early Stage Finance: Further work will be undertaken with our regional partners to identify and fill gaps in the market; such as providing seedcorn funding and schemes like the Equity Guarantee Pilot. We will also work on improving the packaging between the Fund and other investment funds and grant programmes, for example, Invest for Growth.

Money with Management: Mentorbank, which provides subsidised mentoring support to help management teams grow their business more profitably, continues to support the Fund. We also continue to work on other initiatives with partners such as Business Link, the Chambers of Commerce and the universities. Further innovations in the use of the interest rate rebate, whereby client firms receive 100% interest rebates on their loans for six months, will be considered in order to improve its attraction to clients.

The Successor Fund: Finally, development has already started of the second stage fund, this depends on the next round of European Regional Development Fund. We are optimistic about the outcome which will maintain the momentum for the Fund.

Performance and operational summary

Key performance indicators to 31st March 2004

Small Business Fund	Cumulative Totals
No of Investments	85
Value of Investments (£000)	4117
No of Applications	240
No of Approvals	91
Value of Approvals (£000)	4492
Development Fund	
No of Investments	6
Value of Investments (£000)	1680
No of Approvals	13
Value of Approvals (£000)	4090
Capital Fund	
No of Investments	5
Value of Investments (£000)	870
No of Approvals	9
Value of Approvals (£000)	1845
Capital/Development Fund	
No of Applications	172
All Funds	
No of Investments (inc synd)	96
Value of Investments (£000)	6667
No of Applications	414
No of Approvals	113
Value of Approvals (£000)	10427

