

South Yorkshire Investment Fund
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South Yorkshire
Investment Fund

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Annual Report 2006



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 YFM Venture Finance Limited, and the South Yorkshire Investment Small Business Fund, which is managed by Finance South Yorkshire Ltd. YFM Venture Finance Limited (Tel 0113 294 5000) and Finance South Yorkshire Ltd (Tel 01709 386 377) are each authorised and regulated by the Financial Services Authority. South Yorkshire Investment Fund also provides a number of services, which are not regulated by The Financial Services Authority. These include Mentorbank and access to the Yorkshire Association of Business Angels.

Welcome

from the Chairman

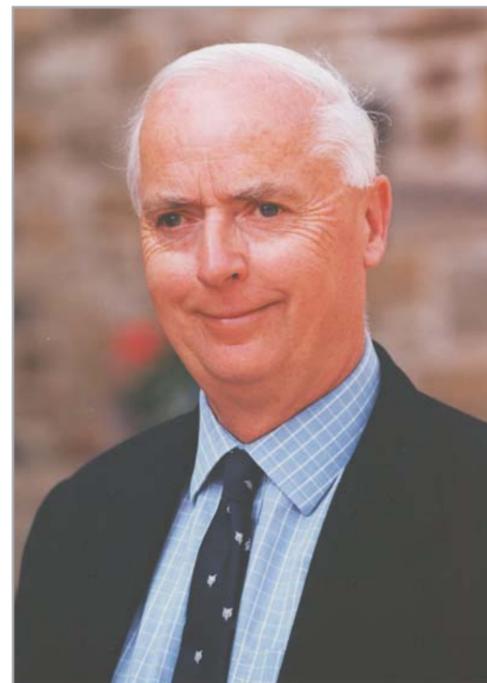
Thanks to the continued hard work of our dedicated SYIF team, I am pleased to say that we have now invested £25m into the region's businesses and reached the important milestone of 50% investment of the fund. Up to the end of September 2006 this substantial figure has benefited 193 companies, created or safeguarded more than 4,200 jobs and assisted 1,106 small to medium businesses. Equally important is the fact that the portfolio of investment remains strong; we expect to meet our projected returns and to bequeath a permanent fund for South Yorkshire.

We are proud of these impressive statistics and see them as a clear indication of how deeply involved SYIF is in helping to power the region's economic development. We can, in part, thank a stable UK economic platform for providing local businesses with the confidence to invest and develop.

Over the past year we have concentrated successfully on the vital role that the region's professional intermediaries play as the main route into the market and we work hard to help them help their clients. With this success, our focus on providing mentoring support through our 'Mentorbank' continues. To date we have placed around 195 mentors in businesses. Mentors not only help to fill a particular skill shortage in the business but also help management teams grow their businesses more profitably. This highlights our continuing development of long-term relationships with clients to help support their growth.

I am delighted to welcome John Warner and Julie Readman to our Board of Directors. They both know our market place well. They will bring a wealth of experience to the Board and will help to capitalise on our success to date.


David Moody
SYIF Chairman



Report

from the Chief Executive

It has been another busy year at South Yorkshire Investment Fund – helping even more businesses in the city region. I believe that this year we have turned the corner and the vision of establishing a sustainable fund for South Yorkshire is now achievable – more to the point it has started to make the kind of impact needed to boost the economy.

One of the main developments in 2006 was bringing the Small Business Team in house. The team, who had a busy end to the financial year, is now managed by a SYIF subsidiary that is authorised by the Financial Services Authority. My thanks go to UK Steel Enterprise who provided the fund management up to this time and who supported the transition to the new arrangement with great professionalism.

There's also been an upturn in equity deals in 2006 – and more recently SYIF has made its largest ever single investment to date of £1.5 million into Barnsley based JDF Logistics – you can read more about this in this annual report.

SYIF was launched in late 2001 and has become an established and highly successful player in the regional finance market. To date, it has invested in 193 businesses in the county, it has created or safeguarded 4,243 jobs in the region, and assisted 1,106 small to medium businesses (SMEs).

SYIF must also look forward to consolidating its success and to this end we are busy working to raise a Successor Fund which would maintain the momentum of the early success already created by the existing fund. If successful South Yorkshire would have its own risk fund for small businesses in the region of £40 million by 2013. I believe a successor fund provides the transition towards market mechanisms as Government grant aid reduces.

Successor Funds are already successfully up and running in other areas, such as Merseyside and Wales. The economic impact of such funds can only be truly measured in the very long term, but the general perspective has been that creating sustainable financial funds, focused at local business growth issues, is the best way of developing financial support for businesses.

The Successor Fund, if it gets the go-ahead, would use European funds which should be available post 2008. These would be used to lever private sector finance, in the same way as South Yorkshire Investment Fund currently runs its finances.

SYIF exists as a provider of gap debt and equity finance – in other words it fills gaps in the market left by commercial providers of finance and in doing so, allows projects to take place that would otherwise never see the light of day. The Fund provides loans and equity investments ranging from £15k to £2.5m to businesses in, or prepared to relocate to, South Yorkshire. This market making role is crucial to the economy of South Yorkshire and its relevance will increase in line with economic growth.

I'd once again like to thank all involved for making SYIF such a success during 2005/6 and I'm sure we will build on these strong foundations to make 2007 more successful.


Tony Goulbourn
Chief Executive

The SYIF Board of Directors

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

Tony Parsons has spent more than 36 years in the banking profession and was formerly the Director of Commercial Banking at Sheffield's Royal Bank of Scotland.

Alex J McWhirter is Head of Enterprise in the Business Development Directorate at Yorkshire Forward where his responsibilities include Venture Capital Funds.

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

Julie Readman has been involved with the regeneration of the county for 16 years with organisations such as Training and Enterprise Councils and Business Links.

John Warner is a partner of Sheffield-based accountants Barber, Harrison and Platt and specialises in corporate finance, strategic planning and profit improvement.

Capital and Development Funds

SYIF's Capital and Development Funds make investments ranging from £100,000 to £2.5 million to businesses in, or prepared to relocate, to South Yorkshire.

Investments range from management buy-ins and buy-outs; start-up businesses to business expansions.

SYIF completes biggest investment to date

South Yorkshire Investment Fund (SYIF) has made its largest single investment to date of £1.5 million into Barnsley based JDF Logistics, which offers a national transport and warehousing service to blue chip customers.



Pictured from the left are (Front) Paul Milnes and Stephen Garside. (Back) Patrick Abel, Mary Broadhead, Neil Thompson and Simon Murden.

The landmark investment, part of a multi-million pound deal in conjunction with Yorkshire Bank, allowed Managing Director Paul Milnes to head the management buyout of the company.

Mary Broadhead, Investment Manager at SYIF, said: "This is an important deal for the region. We are pleased to be able to offer key financial support to such a progressive organisation."

JDF controls approximately 400,000 square feet of warehouse space on three sites adjacent to Junction 37 of the M1 motorway and operates a fleet of 45 distribution vehicles. The company employs 125 people and has turnover of £10 million per year, which is underpinned by a number of long term customer contracts.

Outgoing Executive Chairman, Douglas Fearnley appointed BDO Stoy Hayward LLP as Lead Advisers on this transaction. Jason Whitworth and Sam Irving headed the team and introduced the funders to the deal. Vendor legal support was provided by Bob Harrap and Richard Annett of Lupton Fawcett.

Douglas Fearnley said: "I am delighted to be leaving the company in the hands of a dedicated and experienced management team, who will continue to build on the excellent progress we have made to date."

Paul Milnes, head of the MBO team, said: "I am delighted that Douglas has had the confidence in the strength of the management team to take the business forward and build on the success he has enjoyed for many years.

With the support we have had from our investors SYIF and Yorkshire Bank, coupled with the excellent legal and financial advice from Neil Thompson at DLA Piper and Patrick Abel at PKF, JDF is poised to build on that success."

During the company's 19 year history, many sector leading companies have come to rely on JDF Logistics to supply their distribution, warehousing and logistical needs ahead of key competitors.

Simon Murden, who led the Yorkshire Bank team, which was advised by Mark Davies and Chris Ramage of Cobbetts solicitors, said: "JDF is a profitable, well managed business offering a high quality and flexible service to its long standing customers. We have been bankers to JDF for 16 years and are delighted to support the strong and experienced management team and to facilitate in the company's progress."

SYIF received legal advice from Tim MacLean of Keeble Hawson solicitors and financial due diligence was carried out by Strategic Corporate Finance.

The key performance indicators to 31 March 2006 are as follows:

	Development Fund	Capital Fund	Combined
Number of Investments	21	18	
Value of Investments (£000)	£6,223	£3,873	
Number of Applications	-	-	351
Number of Approvals	33	28	
Value of Approvals (£000)	£10,669	£5,865	

South Yorkshire technology company expands through investment

A South Yorkshire company is expanding its operations, following an investment from South Yorkshire Investment Fund.



Comvurgent's Philip Hill is pictured (left) with Paul Gower of SYIF

SYIF has provided development capital for Comvurgent, a high-technology telecommunications specialist.

The £350,000 investment from SYIF will be used to relocate Comvurgent's headquarters from Nottingham to Doncaster and will also provide support for rapid sales growth in the American market.

Philip Hill, Chief Executive Officer at Comvurgent, said: "The Investment from SYIF has really given Comvurgent the opportunity to embrace new and international markets, which has proven essential for the continued growth of the company.

"I have been very impressed with the ease of dealing with SYIF. They are totally supportive of our expansion programme and made the whole process of sourcing the investment and providing the funds very straightforward indeed."

Paul Gower, Investment Manager at SYIF, said: "The growth capital provided for Comvurgent's expansion has yielded a minority equity stake for SYIF in a company which has a phenomenal capacity to embrace emerging US markets."

Over the past six years, Comvurgent has designed and developed a range of technologies and products and established a US-based office in Mission Viejo, Southern California.

Small Business Fund

SYIF's Small Business Fund provides typically unsecured loans from £15,000 to £150,000 to business in, or prepared to relocate to South Yorkshire. The finance can be used for a range of purposes from buying a business, buying new equipment, to funding a deposit on a property or covering the costs of moving premises.

Specialist company insures success

A South Yorkshire insurance claims company have underwritten their future expansion with a third loan from South Yorkshire Investment Fund.



Pictured from the left is Stephen Murray, of Finance Directors Yorkshire Ltd; Leigh Rixon, Managing Director of General Maintenance and Jonathan Dixon, Deputy Chief Executive at SYIF

Rotherham-based General Maintenance has secured a £120k loan from SYIF, enabling the company to expand its South Yorkshire operations.

SYIF provide loans and equity linked investments ranging from £15k to £2.5m to businesses already in, or prepared to relocate to, South Yorkshire. The Fund has already invested over £24 million in 193 businesses – and now many are returning for more funding to further develop their company's growth.

The £120k loan follows two early stage investments from SYIF of £25k each, in June and October of 2004, which enabled the company to purchase computers, vans and materials required to launch the business.

General Maintenance is now firmly established as an insurance claims specialist dealing with the whole process from claims assessment, costing and appraisal to property repair and recovery work.

Stephen Murray, of Finance Directors Yorkshire Ltd, has been appointed as a mentor, to give them support during their growth.

Leigh Rixon, Managing Director of General Maintenance, said: "The investment will help the company to move forward. Most businesses that fail do so because of a lack of investment – they have the business model, but no money to support it.

"Cash is king, particularly in the insurance business and it is vital not to be restricted in growth," he added.

Jonathan Dixon, Deputy Chief Executive at SYIF, said: "General Maintenance clearly has the opportunity to expand, and their continued success will benefit the South Yorkshire region. Our remit is to invest in businesses from early stage through to expansion and we particularly welcome dynamic organisations like this which we have seen grow with the aid of our finance."

The key performance indicators to 31 March 2006 are as follows:

Small Business Fund	
Number of Investments	169
Value of Investments (£000)	£9,568
Number of Applications	457
Number of Approvals	180
Value of Approvals (£000)	£9,821

Sheffield company brews up success

A Sheffield company is rekindling the city's beer brewing industry with an expansion plan funded by a £150,000 loan from South Yorkshire Investment Fund.



Pictured from the left is Clive Downward, SYIF Investment Director and Patrick Morton, of Abbeydale Brewery.

Abbeydale Brewery will be using the SYIF loan along with a £50,000 Food and Tourism grant from Invest For Growth (IFG) – administered by Business Link South Yorkshire – to expand their brewing capacity from 70 to 150 barrels of beer per week.

The company expansion also includes Abbeydale Brewery's purchase of their first pub - The Rising Sun at Nether Green, which has nineteen draft beers, including ten hand-pumps, and showcases Abbeydale Brewery beers alongside a selection of guest-beers from South Yorkshire and beyond.

Chris Morton, Director of Abbeydale Brewery, said: "The funding will allow the company to grow much more quickly than would otherwise be possible. The investment will enable us to economise the brewing process and to pay greater attention to quality throughout."

The company's 'Moonshine' beer currently outsells any other micro-brewery produced beer in Sheffield's pubs and bars. The objective for expansion is to initiate significant production of high quality beers and to re-establish Sheffield's reputation as a beer producing city.

"Sheffield has always been a hallmark for quality and the city had a proud tradition of brewing beer on a large scale with companies like Stones and Wards. Wards was the last significant regional brewer of beer in Sheffield and we see our expansion as a step on the return path to volume brewing," said Chris.

Abbeydale Brewery was started in 1996 by Patrick Morton and his father Hugh. The family has long-standing business roots in Sheffield, stemming back to Morton's cutlery business which ceased manufacturing from its West Street premises in 1983.

Chris said: "The family business goes back at least four generations in Sheffield's steel and cutlery industry, but it has to be said that making beer is much more fun than manufacturing scissors!"

Clive Downward, Investment Director at SYIF, said: "Abbeydale Brewery are an established company with a very high quality product and the management have a clear vision for future development.

"We are pleased that the SYIF loan will go towards cementing their place as a premier brewery, and in supporting their expansion plans."



Pro-South Yorkshire

SYIF is a founding member of Pro-South Yorkshire (Pro-SY) – an initiative aimed at raising the profile and prominence of businesses from the business, professional and financial services sectors. Pro-SY has been operational since April 06 and to date has a founder membership of over 40 businesses from the sector. Pro-SY's main objectives are to raise the profile of the professions in South Yorkshire and to increase business for the sector in the region.

Pro-SY has facilitated the setting up of a number of specialist sector sub-groups, which aim to examine issues relevant to members across South Yorkshire.

An associate membership scheme is operational working in collaboration with the Chambers of Commerce and Pro-SY is working towards promoting the professional expertise available in the area and in so doing increase the amount of business done locally.

Finally, Pro-SY has welcomed the support it has received, firstly from the Objective 1 Executive to support the development stage and secondly from Renaissance SY and Business Link who have sponsored activity as part of building strong links between the professions and the economic development agencies in the region.



Money with Management

Money with Management is an integral part of the Fund. Its purpose is to drive the use of strategic advisers and mentors by clients of the Fund. In so doing, clients can develop stronger and more secure businesses and be rewarded through payment of attractive interest rebates and subsidies against the cost of mentor fees. Clients can also get pre-investment help to support the development of detailed applications to the Fund.

Mentorbank

The Mentorbank is a database of mentors and non-executive directors that now boasts more than 480 members covering almost every sector and skill base. Mentorbank has continued to grow and has provided mentoring and Non Executive Director support to 168 businesses.

Social Enterprise

SYIF works 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. SYIF also support demand from the sector for larger investments.

Business Angels

As part of SYIF's commitment to offer clients access to the broadest possible spectrum of finance options, the Fund continues to work closely with the Yorkshire Association of Business Angels (YABA). YABA provides access to more than 120 experienced business people that are each willing to invest in early stage businesses and provide support to their management teams.

Seedcorn Fund

SYIF are planning to launch a new pilot-scale £7m Seedcorn Fund and is in advanced discussions with funders at Yorkshire Forward and Objective One. The new fund will plug a gap in the market to support early stage technology based business by providing vital 'proof of concept' and 'commercialisation' finance.

A successor fund for SYIF

South Yorkshire Investment Fund is now planning a successor fund that will build on the success of the first round Fund. As before, the new fund will provide gap finance alongside mainstream sources and will offer a mix of seedcorn, equity and loan finance.

The Successor Fund, if it gets the go-ahead, would use European funds which should be available post 2008. These would be used to lever private sector finance, in the same way as South Yorkshire Investment Fund currently runs its finances.

It is believed a Successor Fund would maintain the momentum of the early success already created by the existing SYIF.

The vision of SYIF is that by 2013 South Yorkshire establishes a permanent fund, driven by the local businesses for local businesses.

Finances

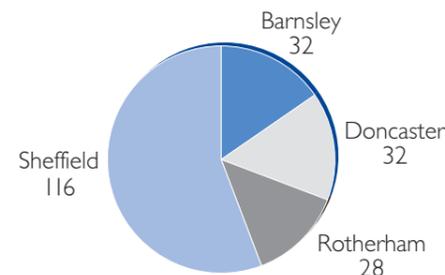
The objectives are to meet the following investment targets for 2006/07

Small Business Fund	£3m
Development Fund	£4m
Capital Fund	£2m
Businesses assisted	212
Jobs created	258
Jobs safeguarded total	448
Management support days delivered total	1,200
Value added sales	£75m

Location statistics – cumulative to 31 March 2006

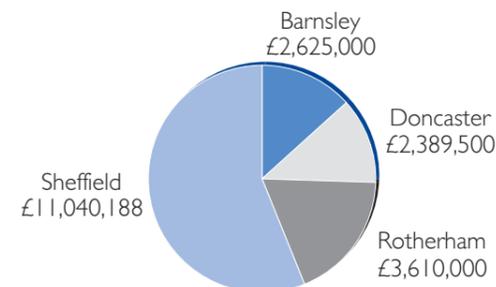
Number of investments

Barnsley	15.4%
Doncaster	15.4%
Rotherham	13.5%
Sheffield	55.7%
Total	100.0%



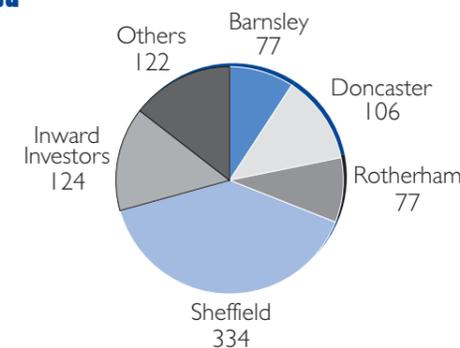
Value of investments

Barnsley	13.3%
Doncaster	12.2%
Rotherham	18.4%
Sheffield	56.1%
Total	100.0%



Number of applications received

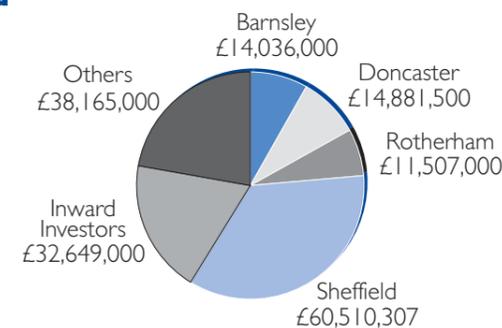
Barnsley	9.2%
Doncaster	12.6%
Rotherham	9.2%
Sheffield	39.7%
Inward Investors	14.8%
Others*	14.5%
Total	100.0%



*Location yet to be decided at date of application

Value of applications received

Barnsley	8.2%
Doncaster	8.7%
Rotherham	6.7%
Sheffield	35.2%
Inward Investors	19.0%
Others*	22.2%
Total	100.0%



*Location yet to be decided at date of application

Value of approvals and investments

Results to 31 March 2006

Investments

Small Business Fund	£9,568,000
Capital Fund	£3,873,000
Development Fund	£6,223,000
Total of investments	£19,664,000

Output Measures

Jobs created	883
Jobs safeguarded	2,825
Number of SMEs assisted	996
Mentor days supported	3,381

Gross additional sales generated after investment £68.5 million

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	2006 (£000's)	2005 (£000's)
Income		
Grants and contributions	1,091	1,138
Fees and other income	46	2
Investment income	673	868
	1,810	2,008
Surplus before taxation	142	313
Taxation	-	(2)
Retained surplus	142	311
Average number of employees	11	10
At year end		
Net assets employed		
Fixed assets	29	27
Debtors	529	499
Investments and deposits	12,868	15,338
Cash at bank	129	67
Liabilities	(12,507)	(15,025)
	1,048	906
Reserves		
Retained surplus	1,048	906

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 2006. 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 business 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 2006, which contains an unqualified Auditors opinion, is available on request from the Company Secretary at the registered office of South Yorkshire Investment Fund Ltd.