

young company finance

news, comment and analysis on the young company market

invention . . . proof of technology . . . proof of market . . . breakeven . . . exploitation

Deals

BlueSky Telemetry	page 1
Visual Science	2
Rapid Mobile	3
Genuine Games	3
Infinite Data Storage (IDS)	4
Cyclacel	4

Features

Deals monitor

VC investments in technology	7
The Enterprise Gym	8
Industrial Fellowships	8

Investors & funds:

Digital Media Project Investment Fund (DMPF)	9
Alpha EIS Fund	9

LINC Scotland

West of Scotland Equity Programme	11
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BlueSky Telemetry extends wildlife tracking systems

BlueSky Telemetry, based in Aberfeldy, has secured an investment of £100k from Adaptive Venture Managers and the SCF to help it develop new product lines.

BlueSky Telemetry was formed in 2001 by Dr Ian Hulbert and Fiona Hulbert. Dr Hulbert is a zoologist whose work had always involved tracking animals. In the mid 1990s, he had bought GPS collars for this purpose from a small company in south east England, the owner of which eventually retired without making any arrangement for the continuation of the business. Hulbert sensed an

opportunity, and set up BlueSky Telemetry to produce GPS collars which use wireless or mobile phone communication to set up and download data. Wildlife scientists use the collars to track the movements of individual animals with GPS accuracy, and to monitor other measurables such as temperature, heartbeat, and (in the case of birds) altitude.

A typical objective in such research is the monitoring of the spread of diseases. One of BlueSky's clients in Western Australia is looking at the interactions between sheep and

1st February—YCF conference—Edinburgh University spinouts: does spinning out make you dizzy?

The conference will be followed by a Business Forum meeting, at which university spin-outs **Spellbinder** and **Intrallect** will make presentations.

The speakers at the conference are:

Derek Waddell, director, Edinburgh Research & Innovation (ERI)

Gary Evans, US chief executive of ANGLE Technology

Ian Ritchie, chairman of Connect Scotland

Catherine Beech, founder, Cambridge Gateway Fund

Find further details and register online at: www.rjevents.co.uk/ycf

The conference is sponsored by Marks & Clerk, the UK's leading firm of patent and trade mark attorneys - ranked the No 1 firm in the UK each year from 1997 to 2005 by *Managing Intellectual Property* magazine's independent worldwide survey.

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kangaroos; the kangaroos, which are potential transmitters of disease, are tagged with passive sensors, and the GPS collar on a sheep will detect whenever it comes into proximity with a kangaroo, and report this fact together with the GPS position. A similar programme in Texas is monitoring the movements of cattle and wild pigs.

Another objective is to manage herds of animals productively; again in Australia a BlueSky system is being used to monitor cattle grazing patterns so that either animals can be moved or the pasturage can be appropriately enriched.

Some new products are initiated in response to clients' suggestions and comments. One such is a remote drop-off for birds. The original version was developed for animals such as grizzly bears, so that a GPS collar

could be remotely released to retrieve data without the need for recapturing the animal. The bird version was suggested to Hulbert by a colleague carrying out research into eagles; the product could be of particular use in monitoring bird-borne diseases such as avian flu.

Until now, all BlueSky's sales have been to scientific research establishments, typically those advising governments on wildlife policies. BlueSky won a SMART award in 2004 for the development of an application for use in performance sports including horse training and racing, which will have a commercial market. The SMART project is now complete and a product is ready for demonstration, but could not be easily brought to market solely with the profits from the GPS collars. BlueSky was aware that it

needed external finance to take it to its next stage of development, and participated in Connect's Technology Showcase early last year with the specific aim of finding an investor. In the event, besides meeting the eventual investor Adaptive, the company also made contact with manufacturers who could provide components for BlueSky products.

BlueSky is applying for a SPUR grant to follow the SMART award. If successful, this and other grant funding from SE Tayside could provide up to a further £200k, which together with the Adaptive investment will enable BlueSky Telemetry to make a step change in its operations.

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Visual Science secures Sigma investment

Visual Sciences Ltd, established in 1993, is Scotland's largest independent games developer. On 13 December it announced an investment of £300k by the Sigma Innovation Fund, managed by Sigma Technology Management Ltd.

The video games market is split into two types of company: publishers, who own the intellectual property (IP) in the different games which they market, and whose role is to manufacture, package, market, sell, and distribute the games; and developers who create the games. There has been a continuing consolidation of both publishers and developers in recent years; there are now fewer publishers for developers to approach, but those that remain are more robust than before.

Developers can either own the IP of a game, and try to find a publisher (in the same way as the author of a book), or develop games which have been conceived or started by others. This latter strategy has less risk than promoting one's own IP, and lower but possibly steadier returns, and is the strategy adopted by Visual Science.

The company specialises in the creation of AAA video games based on original or licensed properties, and offers a full in-house development solution on PC, Playstation 2, Xbox, Xbox 360 and Sony PSP. Projects worked on by the company include Medal of Honour, Formula 1 and Harry Potter World of Quidditch. For the year ended 31 December 2004, the company generated turnover of over £3.6 million.

The industry is growing rapidly, and new consoles and software platforms are emerging constantly. The funding

by Sigma will allow Visual Science to invest in the more powerful PCs and IT tools required to develop games for new platforms, and provide working capital. A major contract on which Visual Science has been working comes to an end by the middle of this year, and the company is now looking for new projects.

Visual Science recently moved into new offices, as the first tenant in the Vision@Seabraes building in Seabraes Yards, the centre of a new creative media district being developed by SE Tayside and private and public sector organisations.

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Pentech backs Rapid Mobile

Rapid Mobile, which has developed a technology framework for the rapid development and deployment of mobile applications, has secured an investment of £650k from Pentech Ventures.

Rapid Mobile was started in February 2004 by Iain Maddox and Richard Marshall, with the objective of creating a new, efficient development method for mobile applications on a wide range of devices. This is needed to replicate the growth of e-commerce in the mobile space.

Since nobody has experience specifying mobile applications, the ability to create prototypes rapidly was essential. These prototypes would enable people to understand the full capability of mobile to deliver m-commerce, moving away from clunky and slow WAP or SMS applications. Marshall and Maddox took the decision to use Java based technology because of its speed of download, better navigation, much better displays and to allow branding of the application.

Rapid Mobile's technology, consisting of a design method and a code framework, is called ThinkPhone™, and it allows rapid prototyping, develop-

ment and deployment of mobile applications which conform to all major Java standards. It is supplemented by the company's Active Provisioning™ system, which automatically recognises the profile of new phones and devices as they emerge on the market each month, and creates an optimal version of the ThinkPhone application for each device, so that the fonts and graphics look good and functions such as button assignments work without problem. Currently, Rapid Mobile supports over 400 different devices, though this keeps expanding as new phones come to market.

The technology was pitched to a number of market sectors, and the first to take it up was the gaming world in the shape of Betfair, an online sports betting exchange. Rapid Mobile developed a highly successful product called Mobet (www.rapid-mobet.com) which enables Betfair account holders to place bets from a mobile device, track the odds offered, and check their account statements. Since launching in March 2005 over £35m worth of bets have been placed using the software.

The company was initially funded by its founders, and has followed a classic growth strategy. The first step was to secure the first customer and create the first application. Subscrip-

tion revenue was earned from this first project (Betfair clients pay Rapid Mobile a monthly sum for the use of the software); further products were developed for the first customer; and further customers were found in the same market sector (Cantor, and Betting World in South Africa). Rapid Mobile then appointed Ewan Grant of Baker Tilley to assist with raising funds. After a brief encounter with a couple of "cowboy VCs" in London (Maddox's description), Baker Tilley introduced the company to Pentech Ventures in Glasgow. Rapid Mobile saw Pentech as a "value add VC", and as the company fitted Pentech's investment profile, the result was a £650k funding deal. Dr Sandy Mackinnon of Pentech has joined the board of Rapid Mobile.

The finance will be used to develop additional sales channels and take the technology into new areas. Rapid Mobile currently has one overseas agent (Mion Mobile Solutions in South Africa), and is keen to find additional agents in the Far East (particularly Mandarin-speaking, with a knowledge of the mobile sector), South America, and Russia.

**Contact: Iain Maddox
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Genuine Games expands 'girl friendly' range of computer games

Genuine Games, based in Fort William, has secured funding of approximately £250k to develop computer games targeted at females.

The company was started in 1998 by Gordon Ross, who had previously worked with games companies including Eidos, DMA, and Psygnosis. After he was diagnosed with leukaemia the company was dormant for a couple of years, but it restarted in late 2003, and Ross was finally given the all-clear in November last year.

An existing game *Flibbidy Jibs* is

described as an "original and fun game for PC - recommended to fans of Tetris or Mario".

Genuine Games is one of 20 finalists from a field of 172 in the International Mobile Gaming (IMG) Awards (www.imgawards.com) sponsored by NVIDIA, Nokia, Orange, and Alias, with a game called *Day of Love*. The results are due to be announced in February at the 3GSM World Congress 2006 in Barcelona.

A new game *YooStar: fashion salon* is due for launch in April or May this year. This is targeted at girls between the ages of 8 and 18, and enables

them to adopt the role of a Trinny or Susannah and advise clients on a suitable makeover. It will be followed in about a year's time by a more complex game, *Girlzz: Life is a Party*, described as a "fashion and lifestyle game - shop, gossip and party your way to popularity".

The £250k funding package includes £80k of equity and £40k grant finance from Lochaber Enterprise, with the balance from private investors found via Grant Gordon, a family friend who runs GHV Ventures based in the Caribbean. These individuals, all except one of whom are based overseas,

normally invest in biotechnology ventures but according to Ross were keen to move into this very different market.

Ross is currently restructuring the business; Genuine Games will continue as a games developer, and a new company YooStar Ltd will be set up to run the publishing side of the business.

Ross will be CEO of both companies, and Genuine Games will hold 20% of the capital of the new business. It is planned to raise £2 million to finance the new venture; 25% of this is already committed from financial consortia. A limited amount of equity is available to new investors, with a closing date expected to be 31 March 2006 –

for further information email gardie@genuinegames.co.uk

Genuine Games currently employs eight people, and expects to have a further 13 in place by September 2006.

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IDS funds revenue growth

Infinite Data Storage (IDS) of Dunfermline completed a further round of funding in mid-December.

IDS was founded in September 1999 by a management and design team previously involved in the development of hard disk, removable magnetic storage and optical storage products for companies such as Myrica, Nomai and Iomega. The IDS team has developed technologies, products and

component designs which range from the world's smallest CDR recorder, Samba™, to pure data storage devices such as the Iguana™ which was developed for IBM.

The investment round included previous investors Braveheart (with matched funding from the Scottish Co-investment Fund), the Cambridge Gateway Fund, the Bank of Scotland (Uberior), and Yorkshire Fund Managers' British Small Technology

Companies VCT2, together with some private individuals and IDS directors.

The funding will be used to support revenue growth, with the objective of achieving profitability by the end of 2006.

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Cyclacel merges with Xcyte Therapies Inc

On 15 December 2005 Cyclacel Group plc and NASDAQ-quoted Xcyte Therapies Inc of Seattle announced an agreement to combine the two companies.

The transaction will create a publicly-traded international biopharmaceutical company to be called Cyclacel Pharmaceuticals, Inc (CPI) headquartered in Short Hills, New Jersey. Cyclacel's research laboratories in Dundee and Cambridge will be retained, but Xcyte's facilities in Seattle will be closed down.

The transaction is structured as an acquisition by Xcyte of all of the capital stock of Cyclacel Limited, a wholly-owned subsidiary of Cyclacel Group plc. The transaction is anticipated to close at the end of the first quarter of 2006 and is subject to satisfaction of certain customary closing conditions, including the approval of the shareholders of Cyclacel and Xcyte.

The terms of the agreement provide for Xcyte to issue shares of its common

stock to Cyclacel shareholders. Following closing, Cyclacel shareholders will own approximately 80% of the common stock of the combined company and Xcyte shareholders 20%.

The new company intends to build upon what it believes to be Cyclacel's leading position in the area of cell cycle biology, with a portfolio of three orally-available drugs that modulate the cancer cell cycle. CPI will be led by Spiro Rombotis, Cyclacel's current Chief Executive Officer. In addition, Paul McBarron, Cyclacel's current Chief Financial Officer, will become CPI's Chief Operating Officer. The combined company's board of directors will consist of five Cyclacel directors and one Xcyte director with a seventh director to be appointed after closing.

Sir John Banham, chairman of Cyclacel, stated "The transaction will create an international public company with approximately \$30 million in cash, a franchise in one of the most exciting fields of biology and a development-stage portfolio of targeted oncology drug candidates affecting the cancer

cell cycle. We believe that cell cycle targeted drugs will become increasingly important in the modern treatment of cancer as a chronic disease. Cyclacel is well positioned to benefit from the increasing adoption of orally-active therapeutics for the long-term management of cancer patients."

A spokesperson for Scottish Enterprise said: "This is good news for Scotland and good news for Scottish Enterprise. The possibility of a Scottish-grown life sciences company listing on NASDAQ is a real boost to Scotland's global reputation in this field. The company's pre-clinical high value add operations in Dundee will remain in Scotland, as will the COO and other members of the management team. A condition of SE's investment in Cyclacel earlier this year was the retention of its Dundee operations."

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A prosperous 2006

Well, we've heard all the moans and groans of 2006 already, or have we?

If you haven't I'm sure they're in the post. Many are questioning the talent within the Scottish job market this year, many jobs but not enough bodies, companies fighting to tempt the correct calibre of people to join them.

Well, it's now time to focus on making 2006 a prosperous year by utilising the tools we have at our disposal which will have a positive impact on our businesses. All companies need talent to survive and grow, and the recruitment market is flourishing with agencies which are eager to please. Unfortunately some agency processes are not as good as they could be due to a desire to capitalise on lack of available staff - or the lack of knowledge of the markets.

It is important to develop relationships where the focus is on working with companies to develop their business in a way that fully utilises existing talent. Kite's HR consultants work to deliver and implement a recruitment strategy which is in line with the planned growth, making the most of hidden talents internally before recruiting new talent to drive the business forward. Recruitment of professional, high calibre individuals in a competitive market is more difficult than a quality recruitment professional makes it look, and is best left to those who are highly experienced.

"We are working within a very tight market where some are out to make a quick buck, agencies fight for the same scraps and lose sight of the long term goals" says Colin Fitzpatrick, Business Development Manager for Kite HR in Edinburgh.

"Thankfully Kite HR as a company have embedded in our team a focus on the client's business as a whole. We have an in-depth knowledge of every one of our clients and working together our consultants share ideas from their approach in one market which can be applicable to a completely different area. This creates fantastic results. We continue to add many new clients to our portfolio, often by referral. Moreover, unlike the old saying about 'cobblers' bairns' much of Kite's success can be attributed to practising what we preach!"

Kite's business is designed to offer clients the option of outsourcing their Human Resource function or adding strength to an existing internal HR team. This has proved to be an excellent business option especially for the fast growth organisations coming out of the Scottish business market. Human Resources often becomes a forgotten land in a director's path and although they accept its existence they often fail to recognise its importance. "That's where we flourish as our clients accept the need for the HR function, they just don't have the time or some-

times the knowledge to support this need", says Colin. "It's not a weakness, in fact it's a strength for those directors who foresee these needs and manage the risk accordingly. HR is a minefield and if you are not on top of recent changes and legislation then prepare yourself for a bumpy ride".

Our proven model is to ensure a Human Resource infrastructure is in place and we can then work effectively with our clients as we source the talent needed to take their business to the next level.

"At Lumison, we have been delighted with the responsiveness of the team at Kite HR, and the quality of candidates shows an understanding of who, and what kind of people we need to join us as we grow." Aydin Kurt-Elli, CEO Lumison

Dougie Craig of NHS Quality Improvement Scotland comments "Given the consistent change in our organisation it has been important to identify a supplier who can help find solutions to the challenges we face. Kite HR has brought a flexible and adaptable approach, often offering solutions that other suppliers had not considered."

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Private financing deals – last 3 months

dealdate	YCF	company	location	sector/activity	TOTAL £k
Oct-05		Iris-3D	Glasgow	software	£150
Oct-05	82	Cyclacel	Dundee	biotechnology	£5,000
Oct-05		Storyland	Dundee	animation studio	£1,690
Oct-05		Scotland Online	Dundee	internet services	£1,500
Oct-05	83	SFX Technologies	Dunfermline	audio	£710
Oct-05	82	Sterling Healthcare	Lanark	healthcare	£165
Oct-05		Giltech	Ayr	life sciences	£332
Oct-05	83	Traceall	Hillington	software	n/d
Nov-05		Radar World	Edinburgh	electronics	£130
Nov-05	83	Intense	Glasgow	optoelectronics	£8,000
Nov-05	83	Commsworld	Edinburgh	telecomms	£700
Nov-05	84	Martin Energy	Edinburgh	energy	£400
Nov-05		SES Strategies	Perth	security	£110
Nov-05		EctoPharma	Edinburgh	life sciences	£160
Nov-05		NovaBiotics	Aberdeen	life sciences	£300
Dec-05	85	Bluesky Telemetry	Aberfeldy	GPS systems	£100
Dec-05		Mixipix	Hillington	software	£300
Dec-05	84	Plenoptics	Edinburgh	software	£300
Dec-05	84	PRI (Scotland)	Bellshill	materials	£26
Dec-05		M Squared Lasers	Glasgow	optoelectronics	£330
Dec-05	84	iDesign	Newport-on-Tay	software	£1,000
Dec-05	85	Visual Science	Dundee	games software	£300
Dec-05	85	Infinite Data Storage (IDS)	Dunfermline	electronics	£800
Dec-05	85	Rapid Mobile	Edinburgh	mobile software	£650

Notes:

Missing from last month's listing was an investment of £700k in **Camcal** in September. The company operates a facility at the Arnish yard in Stornoway for the production of steel towers and other equipment for the wind turbine sector. In June Camcal announced that it had been selected to fabricate the main tube segments for **Ocean Power Delivery's** Pelamis Wave Energy Converter for the world's first commercial wave-farm project off Portugal. The majority shareholder in Camcal is Senergy, an Aberdeen-headquartered company arising from the merger of Reservoir Management Ltd and Xcavo. Other investors include Scottish Enterprise's Business Growth Fund and Scottish Co-investment Fund (£50k each), Western Isles Enterprise (£440k), and CV Energy, believed to be part of Charlotte Ventures.

M Squared Lasers was started by Gareth Maker and Graeme Malcolm, until recently with Coherent Scotland. The company was awarded an RSA grant of £210k in the third quarter of 2005, and completed an investment of £120k (£100k from Scottish Enterprise, £20k from the founders) in December. It has recently moved into premises on the West of Scotland Science Park. M Squared Lasers is planning a formal launch in May this year.

VC investments in technology 2005

Ascendant, which provides advisory services to growth companies and investors, specialising in financial and business strategy, has completed its analysis of VC investments in the ICT sector for 2005.

Ascendant tracks investments of over £500k by VCs in the technology sector throughout the UK and Ireland.

According to its figures, the number of deals in 2005 was much the same as in the previous year (151 versus 154), but the total invested declined from £501m in 2004 to £484m in 2005. The table gives a breakdown by region, from which it can be seen that Scotland fared less well in 2005, but was not alone in this; the main

area to benefit from an increase in investment was the Bristol/Bath region.

The top ten deals accounted for a quarter of the total investment, with the list headed by London-based Midasplayer, a skills gaming website which attracted £23m from investors led by

Apax Partners in September.

Fifteen VCs (out of a total 174 investors tracked by Ascendant) made five or more investments. They were 3i, Benchmark, ACT, Scottish Co-investment Fund, Atlas, Enterprise Ireland, Fourth Level Ventures, Cazenove, Foresight, Accel, Amadeus, Intel, Quester, Scottish Equity Partners, and Siemens.

The trends for investment in different sectors of the ICT market are

year by 40% in value
❖ The value of 1st and 2nd round investments declined by 25% even though the number of deals remained stable

❖ Investment in Games software and services became fashionable (cf Midasplayer), doubling in 2005

❖ The first open source software investments were made in the UK

Ascendant's Stuart McKnight makes an overall comment about trends in this

sector:
"Experienced investors now seem to be dominating the market. They have seen where their previous investments did not make money, and they can spot the promising areas for the future. Companies with propositions outside these favoured sectors may find it increasingly difficult to get VC

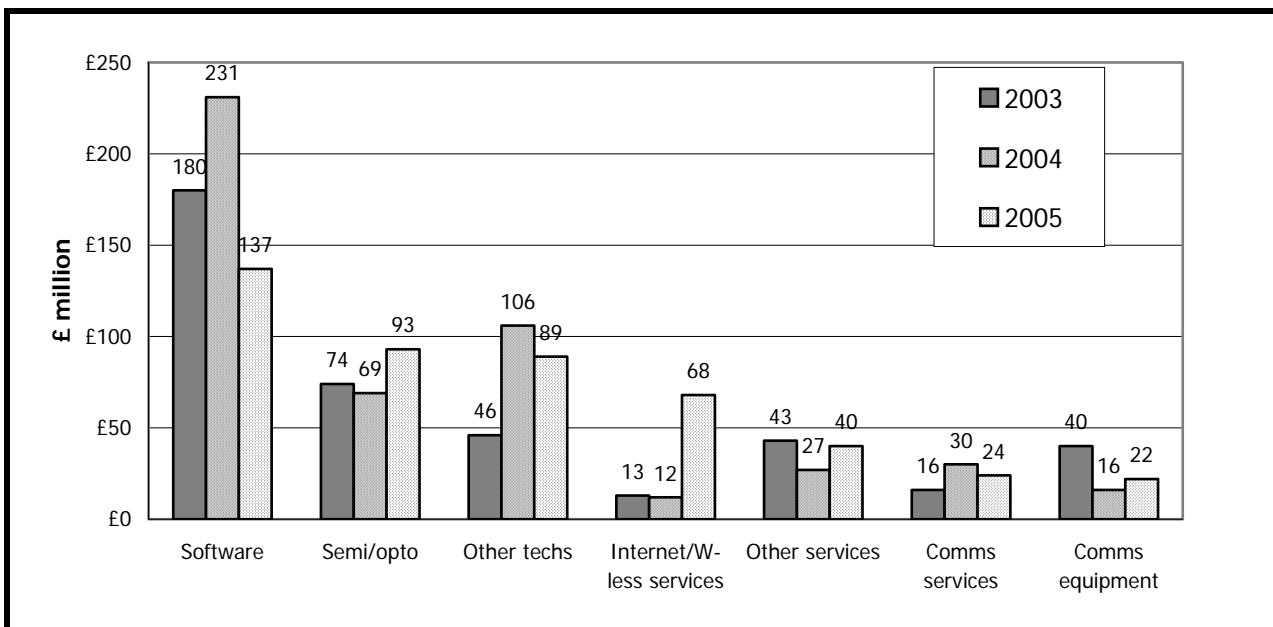
Deals over £0.5 million	investment £m				deals		
	2005	% of total	2004	change	2005	2004	change
Scotland	£49.8	10%	£78.8	-37%	19	24	-21%
Ireland	£100.0	21%	£106.1	-6%	34	35	-3%
Cambridge	£77.9	16%	£65.1	20%	20	14	43%
Oxford	£3.5	1%	£11.6	-70%	2	5	-60%
London	£66.5	14%	£104.1	-36%	25	32	-22%
Bristol/Bath	£35.8	7%	£13.1	173%	7	2	250%
other	£150.7	31%	£122.2	23%	44	42	5%
Total	£484.2	100%	£501.0	-3%	151	154	-2%

shown in the chart. Ascendant make a number of observations about these results:

- ❖ The biggest increases were in Semiconductor/opto (34%) and Internet/wireless services (566%)
- ❖ Investment in software declined this

funding."

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Dundee's Enterprise Gym helps students get fit for business

The Enterprise Gym™ is a unit within the Centre for Enterprise Management at the University of Dundee which enables undergraduate students to develop entrepreneurial skills.

The Gym's aim is "to improve the self-reliance and employability of students by promoting an awareness of and an interest in business enterprise."

The E-Gym aims to make the learning process fun. The VLE Instructor (a web-based Virtual Learning Environment) provides the materials for the programme, and tracks each student's participation and progress. Theoretical study can be followed up with practical team exercises during the Training Workouts, and there is an opportunity to socialise the learning that has taken

place by mixing with other E-Gym members during the Half-Times.

Students in the programme are encouraged by prize money and an award structure. Prize money is awarded after each of the four stages of the Gym's Business Plan Competition, which runs twice per year and is open to teams of between 2 and 6 students. The winning team in round four is also awarded six months' accommodation and office facilities within the University's Greenhouse incubator facility. The programme's first semester ended in December; seven teams had participated in the competition.

Each academic year there will be Championship awards to the team and to the individual who have performed best in the business plan competition and other events.

Occasional participants in the E-

Gym can accumulate credits towards the Fun Run award, while serious students can aim for the Marathon in Enterprise and Entrepreneurialism Theory. The Iron Man accolade is open to those who compete at the highest level in practice as well as theory.

The programme seeks to involve the local business community as partners. Executives from local businesses act as trainers for the Training Workouts, and mentors are recruited from relevant industry sectors to provide guidance for teams while developing their business plans. Other local businesspeople will act as coaches by giving short talks on their business venture at Half-Times.

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www.enterprise-gym.com

Industrial Fellowships

The Micro optoelectronics team at Scottish Enterprise has created an Industrial Fellowship programme to enable potential entrepreneurs from an industrial base to turn their planned vision into a viable reality.

Industrial Fellowships are aimed at candidates who are currently or have recently been employed in the micro or

optoelectronics industry or related sectors, and want to develop and exploit micro or opto electronics technology commercially.

Each Fellowship is awarded initially for nine months. A Fellowship may be extended up to a maximum duration of 12 months, if there is a strong business case for doing so. The Fellowship provides grant funding of up to £40k per annum, access to incubation space, and intensive business monitoring as

well as introductions to business and investor networks.

Applications can be submitted at any time, and Scottish Enterprise expects to be able to make awards within a few weeks of receipt.

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The Caledonian Challenge

A team from YCF has signed up to face the Caledonian Challenge (www.caledonianchallenge.com), and we intend to share with readers the trials and tribulations of preparing for and taking part in this event.

For those who do not know of the Challenge, it is a 54 mile walk on the West Highland Way, from Fort William to the shores of Loch Lomond, within 24 hours. The event is sponsored by State Street Corporation, which provides management, research, and trading services to institutional investors. The event raises funds for the Scottish Community Foundation – over £1 million last year. This year's event runs from the morning of Saturday 17 June into the early hours of Sunday 18 June.

The first challenge when registering is to choose a name for the team. At present, we are registered as **YCF Youngsters**, which is not only unimaginative but also inaccurate. Team members have been threatened with having to wear T-shirts with this name unless they can come up with an alternative.

The next challenge is the CD giving details of how to prepare for the event. Early on in this presentation, walkers are advised to wrap each toe separately in zinc oxide tape to avoid blisters. YCF had never heard of zinc oxide tape before, let alone worn any, and has certainly never wrapped each toe separately in anything. There is maybe more to this challenge than we anticipated . . . In our next issue – does preparing for the event mean more than sticking to one's New Year resolutions?

Investors & funds

Digital Media Project Investment Fund (DMPF)

The DMPF is a co-investment fund operated by Scottish Enterprise under the same rules as the Scottish Co-investment Fund (SCF); in other words, it matches or follows investments made by private sector investor partners.

The fund was set up initially in April last year to provide additional finance for Scottish-based digital media and creative industries projects. It has a total value of £3.5 million, and can co-invest up to a maximum of £500k per deal on the same terms and conditions as its co-investment partners. The major difference from the SCF is that the DMPF provides project finance rather than equity. The DMPF investments will achieve a return when the project is completed and sold to a commissioner, distributor or publisher and through a share of royalties. The co-investment partner and SE have

exactly the same position in a project.

Since its launch in April, the fund has made three investments - one in *On a Clear Day*, the film starring Peter Mullen which recently won the BAFTA Scotland award for best film, a TV documentary for ITV made by Caledonia TV and a console game with F4G.

At the beginning of January, Scottish Enterprise named Sigma Technology Group plc as its fourth partner in the fund. Sigma is looking to invest in digital media projects through its Sigma Technology Venture Fund and Sigma Innovation Fund.

The list of private sector investment partners is now:

❖ **Ingenious Media**, a specialist media investment and advisory business based in London, operating in investments, corporate finance, asset management, ventures, and consulting. www.ingeniousmedia.co.uk

❖ **Fund4Games (F4G)**, set up by Tim Gatland of the Noble Group in Edinburgh to finance individual games projects rather than companies. www.fund4games.com

❖ **Glasgow Film Finance Ltd**, which finances independent feature films and is the only Scottish based commercial film investment fund.

❖ **Sigma Technology Group plc**, the Edinburgh and London based venture capital and advisory group. www.sigmatech.co.uk

Contact: Fiona Hamill, Director of Creative Industries, Scottish Enterprise 0141 248 2700

Braveheart launches Alpha EIS Fund

Braveheart Ventures announced in mid December the launch of a new tax efficient investment scheme. The Alpha EIS Fund will make investments in university spin-out companies.

Braveheart has framework arrangements with seven Scottish universities under the SMART:Scotland and the Proof of Concept grant schemes, and announced a £10 million funding deal with the universities of Glasgow and Edinburgh in June last year.

Braveheart CEO Geoffrey Thomson says that, as distinct from Braveheart Ventures' later-stage investments, the Alpha fund will provide investors with an opportunity to build a junior portfolio of tax efficient investment in seed or early-stage companies that are rich in intellectual property and which have

the potential for significant capital growth.

"We are also offering investors the opportunity to become involved by way of remunerated non-executive directorships or even interim CEO roles, but this is not a precondition", he added.

Participants in the £2.5 million fund are expected to include Bank of Scotland Corporate, NESTA, Scottish Enterprise, and Braveheart's private client investors. The fund will deliver a minimum of ten EIS qualifying investments, and once it is fully invested, Braveheart intends to launch a follow-on fund.

For the private investor a subscription to the fund will give a minimum of ten equity holdings. The EIS structure means that investors can offset 20% of the cost of each investment against income tax, can shelter capital gains, and can offset losses against gains or

income tax. In addition, profitable exits are exempt from capital gains tax, providing the investment remains a qualifying investment throughout a three-year holding period. The investments are free of inheritance tax if held for two years.

Geoffrey Thomson points out that in November Bank of Scotland Corporate acquired a 10% stake in Braveheart, perhaps encouraged by the portfolio growth of 38% on exited funds and 33% per annum across its whole portfolio. This performance is claimed to rank Braveheart as one of the most attractive venture capital players in the UK market.

Contact: Geoffrey Thomson 01738 587555 www.braveheart-ventures.co.uk

And now a word on our sponsors...

Escape Recruitment Services Ltd was launched a little over five years ago after the founders looked at the sector and decided all was not well.

One of them, Ewan Jardine, who was to become managing director of the Livingston-based company, says: "Towards the end of the decade recruitment had become very depersonalised, particularly for candidates. There was a lot of aggressive acquisition going on and once candidates were signed up by a recruitment organisation, the treatment they received was clearly very poor."

The 'candidate focused' approach developed by Escape has clearly worked. Having turned over just £500k in the first year of operations, the company expects to top £5.5 million this year. Having started with four founders, Jardine, Ann Marie Hamill, Adrian Brady and Paul Leishman, it has grown to 30 employees and expects to add another ten by the end of the current financial year.

By the time they came together Jardine, Hamill, Brady, and Leishman, although young, already had a wealth of experience between them in the Scottish recruitment scene, having worked for some of the most established names in the business.

Jardine acknowledges that they were used to candidates being treated as no more than pawns in a power game, but he and his partners knew what was needed: "There had to be a more balanced relationship between the recruiter and the candidates", he says. "They needed a source of advice and someone who could be trusted to treat them well, in terms of keeping

them informed, giving them time-scales, ultimately representing the client organisations in a very effective manner."

Escape was therefore created to become an extension of the client organisations and, as the first point of contact with the candidates, a thoroughly professional 'front' providing a positive experience for both sides.

According to Jardine there is no conflict in being candidate focused, even when the bills are paid by the companies. "When companies are looking to build their businesses, then the most important thing they can spend money on is the people they have. If they don't, then the growth and long-term health of the organisation is going to be compromised.

"We also work very closely with the companies, and part of that is to advise on how best to represent themselves to the candidates and to the marketplace in general, from a recruitment standpoint. It's still common for companies not to do that, but they should always remember that good candidates are in demand and need to be treated well and effectively sold to."

In the beginning Escape focused largely on the technology sector, because that was where the expertise of the founding partners lay. Electronics, biotechnology and medical devices remain an important area for the company, but over the years the portfolio has expanded to include everything else, from accountancy to heavy engineering.

Jardine says the basis of Escape's success is building trust. "It's about delivering on promises. You have to do what you say you will and be consistent about it," he says.

"It's not always easy to take an honest and straightforward view with clients. From time to time we'll be advising them in ways they might not expect or necessarily want."

It is for that reason that Escape takes the time and the trouble to become embedded in client companies. "We're much, much more than a CV supply service. Our understanding of an organisation's culture is just as important as understanding the technical aspects of what's required. If you've got a technical fit but not a cultural fit then the candidate is not going to slot into the organisation."

Case studies

Ewan Jardine says that a watershed moment for Escape was when they were asked to find between 20 and 30 engineers for the expanding Inverness Medical operation in the Highland capital. "There was a convergence of happenings in the marketplace," he says. "Motorola was closing down its handset manufacturing and NEC was going at around the same time. We were able to put together a programme in one fell swoop. It was an enormous piece of business for us."

Karen Morrison, who was resourcing team leader at Inverness Medical and remains in place following the take-over by Johnson and Johnson and a name change to **LifeScan** comments: "They have committed to spending considerable time on-site with our hiring managers in order to fully understand the needs of our business, and this has enabled them to identify both the personal attributes and technical we require for successful performance with our organisation."

Plexus Corp (UK) has worked with Escape since its inception. Human resource manager Georgina Purdie says: "They operate with a high level of integrity and I therefore have no problem entrusting them with all suitable recruitment vacancies. I would have no hesitation in recommending them to any employer with high calibre recruitment needs."



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LINC Scotland®
Local Investment Networking Company

Increasing deal flow in the West of Scotland

Connect Scotland, in partnership with LINC, is planning a programme to address the lack of equity deal-flow in the West of Scotland, recognised in the report given by Nelson Gray to the Scottish Co-investment Fund earlier this year which was summarised in these pages (see YCF 77 and 78).

As well as an appreciation of the nature of private equity and the role it plays in business growth, companies must understand the expectations and requirements of investors, develop a thorough, well-supported and investible proposition, and present it effectively to likely investors.

The programme is broken down into three stages:

❖ **Stage 1:** Identification, education, screening and selection of potential deal-flow

Entrepreneurs leading potential high-growth companies need to understand the business benefits of raising equity investment through the different stages of the business life-cycle. This stage will provide a series of workshops to promote equity investment as a business growth tool; introduce practical understanding of the nature of equity investment, and coach participants in expectations of investors and the process of equity investment.

❖ **Stage 2:** Preparation of credible deal-flow

Stage 2 will concentrate on preparation of companies ahead of possible engagement with SCF Partners. It will be funded through the LINC Investment Facilitation Grant which covers up to 65% of eligible costs. This preparation will address the fundamental issues within a company, such as technology, IP, management, and markets, and will use Connect's 360 diagnostic process which draws on the business, investment and professional sectors to give practical and independent advice.

❖ **Stage 3:** Showcasing credible deal-flow to SCF partners

Every company identified through stage 2 will receive mentoring through its investment presentations prior to engagement with SCF Partners. Where obvious synergy exists in sector or stage, companies will be introduced directly to the appropriate SCF Partner. In other cases, companies will make presentations at an SCF Partners Forum. These events will assist companies in giving investment presentations in a real setting, and will be 'closed', i.e. will feature only companies and investors.

For further information, contact:

Andy McNair at Connect
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www.connectonthenet.com

David Grahame at LINC
0141 221 3321
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The first event, a Companies Workshop, is scheduled for 15 March at the Radisson Hotel in Glasgow— see www.connectonthenet.com/Web/Site/SCF_workshops/SCF_companies.asp

LINC news

- LINC's first event of the year takes the team up to the North of Scotland at the end of January where they will deliver an introductory workshop for prospective business angels to the emerging Highland Angels syndicate in Inverness.

- LINC are also holding an angel investing 'Masterclass' in February at the Stirling Management Centre. This will be a more intensive look at issues such as appraisal and diligence, strategic deal structuring, and ap-

proaches to pricing. There will be a modest delegate fee thanks to sponsorship from Morisons, Solicitors, Edinburgh, and the event will be led by Nelson Gray, Peter Shakeshaft, and Ross Hood.

Farewell

Gil Cumming, Senior Manager with LINC, will leave the company at the end of January when he and his wife take up residence in the South East of England to be nearer their family.

Having worked throughout Central and Eastern Scotland, Gil most recently covered Forth Valley, Fife and Tayside, which will now be looked after by Howard Flint, along with his responsibilities for Lothian and Borders. David Grahame, Director at LINC, commented "During his ten years with LINC, Gil became a well known and highly regarded figure and contributed greatly to our work in developing the business angel marketplace in Scotland. We wish him all the very best in his move to East Sussex."

To:

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Summary of main deals in this issue:

company	dealdate	TOTAL £k	sector/ activity	investors	advisers: company
location				lenders, grants	advisers: others
Bluesky Telemetry	1-Dec-05	£100	GPS systems	Adaptive Ventures/SCF	SE Tayside, Semple Fraser, MBM Commercial
Aberfeldy					
Infinite Data Storage (IDS)	22-Dec-05	£800	electronics	Braveheart/SCF, Cambridge Gateway Fund, Yorkshire Fund Managers, BofS (Uberior), individuals, directors	
Dunfermline					
Rapid Mobile	22-Dec-05	£650	mobile software	Pentech Ventures	Baker Tilley, Biggart Baillie
Edinburgh					Dickson Minto
Visual Science	13-Dec-05	£300	games software	Sigma Innovation Fund	
Dundee					

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