BRAINSPARK PLC
ANNUAL REPORT AND ACCOUNTS 2000

BRAINSPARK PLC

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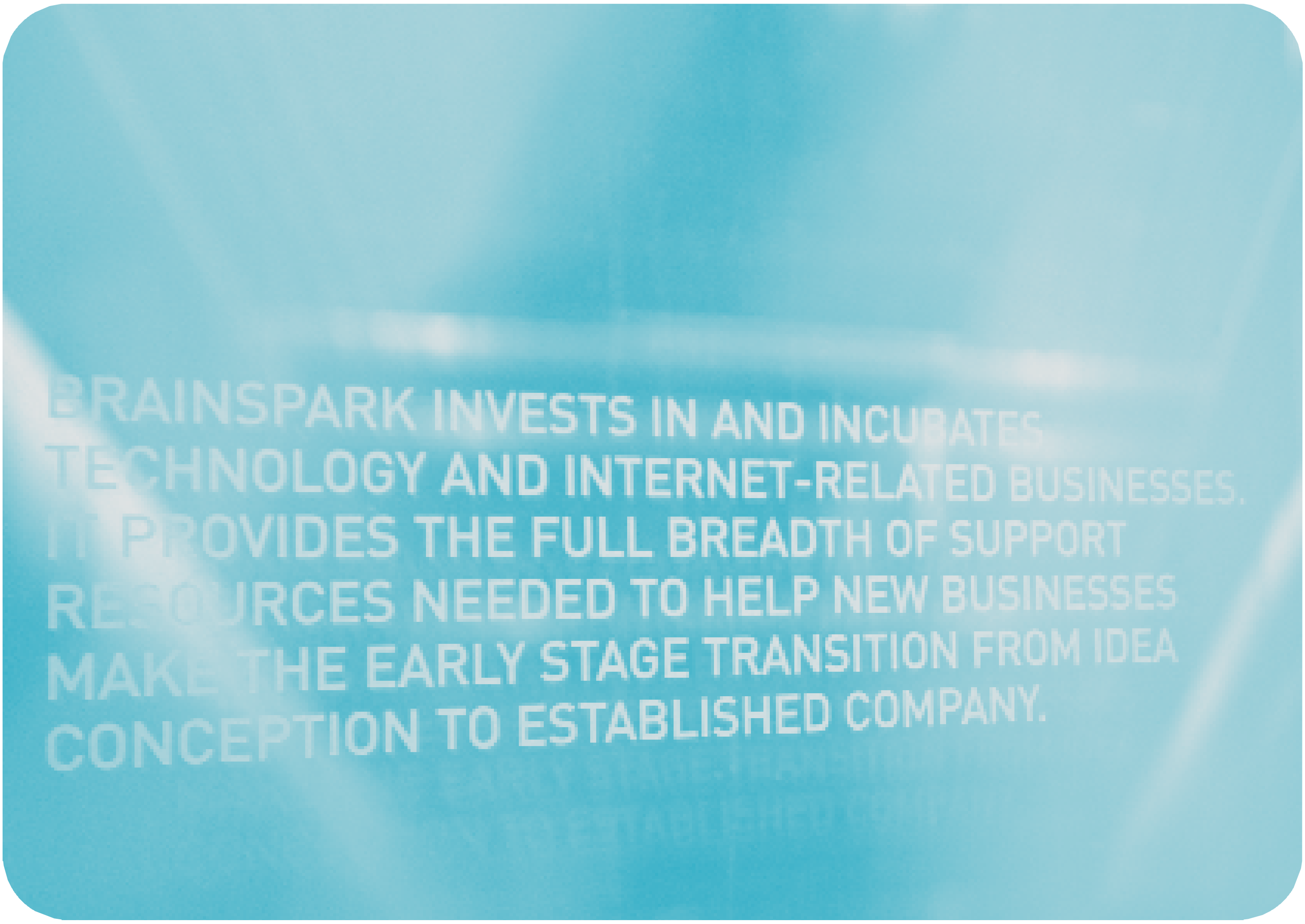


# CHAIRMAN'S STATEMENT

**THIS HAS BEEN AN EXTRAORDINARILY EVENTFUL AND CHALLENGING FIRST YEAR FOR BRAINSPARK, BUT IT HAS BEEN DISAPPOINTING IN TERMS OF YEAR-END RESULTS. THESE RESULTS HAVE BEEN HEAVILY INFLUENCED BY THE NEGATIVE SENTIMENT AFFLICTING THE TECHNOLOGY INVESTMENT MARKET AS A WHOLE, AND EARLY-STAGE COMPANIES IN PARTICULAR.**

# CHAIRMAN'S STATEMENT

**This has been an extraordinarily eventful and challenging first year for Brainspark, but it has been disappointing in terms of year-end results. These results have been heavily influenced by the negative sentiment afflicting the technology investment market as a whole, and early-stage companies in particular. There is little evidence at present of an imminent improvement in this sentiment, so the Board has agreed several changes within Brainspark to ensure it can navigate this continuing hostile period successfully. As Chairman throughout the period covered by these financial statements and subsequently through to 28 February 2001, I will describe these changes.**

## Summary Financial Results

Cash reserves at the end of December stood at a healthy £9.8m. Company Net Asset Value (NAV) at December 31st 2000 was £24.0m or 19.5p per share. Our NAV immediately after flotation in April 2000 was £30.7m, or 24.9p per share. This negative movement in NAV since flotation is as disappointing to the Board as it will be to our shareholders. Although we achieved four upward revaluations at attractive multiples in the investment portfolio in the first part of the year, in the second part of the year we realised losses or made provisions for losses on sale of a number of portfolio businesses.

## Market Environment

The underlying reason for this result has been the dramatic turn for the worse in capital market sentiment towards our investment arena in the latter half of the year. Simply put, the businesses in which we invested seed capital in the first half of the year have subsequently not been able to achieve follow-on funding and the related valuation gains as rapidly as we had originally planned.

## Operational changes

In response to these market conditions the Board feels Brainspark should modify its operating approach. From the outset the Company has provided a relatively comprehensive range of services and infrastructure to support the development of its investee businesses. This remains our approach, but in the current market its cost must be reduced. We have therefore adopted a programme which by the middle of this year is planned to reduce our operating cash requirement to below £200,000 per month. This compares to an average monthly cost last year of £500,000. These actions will reduce the negative impact of operating expenses on our NAV, and will free up more cash for our investments.

The programme reduces staff numbers within the Brainspark team by some 40% compared to their peak in the latter half of last year. It also entails recovering more of the running costs of our Clerkenwell premises through commercially-priced rent agreements with the more mature portfolio companies. These actions will be described in more detail in the Chief Executive's Review. It is unfortunate that this programme entails the loss of some employees, and I thank all those leaving for their contribution over the past year and I wish them well for the future.

## Board changes

In keeping with these market and operational changes we restructured the Board on 28 February 2001. This restructuring was designed to align the skills and experience on the Board with Brainspark's modified operation and the specific challenges now facing the Company in its next stage of development.

For a number of months, I had been considering the fact that the Board would benefit from having available additional experience in the complexities of helping young companies navigate through seriously difficult markets. Given the operational and financial challenges ahead we are very fortunate that Don Caldwell has taken on an increased role. I am delighted to report that he became Chairman with effect from 28 February 2001. Don has had an extensive career in venture capital. At present he is Chairman and Chief Executive Officer of Cross Atlantic Capital Partners, which is the largest shareholder in Brainspark. He is a former President and Chief Operating Officer of Safeguard Scientifics Inc, and he is also currently a Non-Executive Director of several leading companies in the US, and Chairman of Crucible Corporation, a seed fund based in Ireland. In particular he has important experience in helping companies through the very difficult early stage investment markets such as the one Brainspark has been experiencing. I am continuing as a Non-Executive Director to support Don in taking up this role.

I am also pleased to welcome Andrew Hawkins to the Board as an additional Non-Executive Director. Andrew brings further relevant experience from a career with several leading technology investment firms in the UK, and he is currently a partner at Palamon Capital Partners.

Regrettably, a further aspect of the agreed restructuring is that we have lost Alwyn Welch our Chief Operating Officer (COO), and Mark Harford our Chief Financial Officer (CFO). Both have played a major role in Brainspark's progress over the past year and have been instrumental in the changes that have taken place. However they and the rest of the Board feel that the change in the businesse's near-term focus meant that it could no longer retain their roles.

The COO and CFO roles have now been combined and are being fulfilled by Jasper Judd. Jasper, a chartered accountant, joined us from Easyart, one of Brainspark's portfolio companies. With his experience in finance and commercial management in a range of early-stage businesses, Jasper is ideally qualified to fill this broad position. I would like to take this opportunity to welcome publicly Paul Corley to the Board. Paul joined us as a Non-Executive in November, and his extensive experience, particularly in media businesses, is already making a strong contribution.

Martin Fiennes resigned as a Non-Executive Director on 2 April 2001 and I thank him for his contribution over the past year.

## The Future

I believe the value creation opportunities in early stage technology investing remain highly attractive. Moreover, the approach Brainspark has developed and the reputation it has built bode well for its competitive success in this arena. This is underlined by Brainspark's three biggest shareholders all having agreed to extend the lock-in period on their shares for a further six months following the April anniversary of the Company's flotation. The team's decisive action to evolve the business in line with the rapid pace of change in our market is strong endorsement of the responsiveness, commitment, and willingness to learn that characterise this unique company.

Barbara S Thomas

BARBARA THOMAS NON-EXECUTIVE DIRECTOR
(AND CHAIRMAN TO 28 FEBRUARY 2001)

## CHIEF EXECUTIVE'S REVIEW

WE REMAIN CONVINCED OF THE ENORMOUS POTENTIAL FOR VALUE CREATION PRESENTED BY THE EMERGENCE OF NEW TECHNOLOGY-ENABLED BUSINESSES. IN BRAINSPARK WE HAVE ADOPTED A 'HANDS-ON' APPROACH TO OUR INVESTEE COMPANIES. NEITHER OUR PURPOSE NOR OUR BELIEF IN THE STRENGTH OF OUR MODEL HAS CHANGED, AND WE REMAIN FULLY COMMITTED TO BOTH.

# CHIEF EXECUTIVE'S REVIEW

**We remain convinced of the enormous potential for value creation presented by the emergence of new technology-enabled businesses. In Brainspark we have adopted a 'hands-on' approach to our investee companies. Neither our purpose nor our belief in the strength of our model has changed, and we remain fully committed to both.**

## Brainspark in 2000

This has been an exciting and challenging first full year of life for the Company. We launched in September 1999 with £6m of venture capital backing, with the purpose of finding, investing in, and accelerating the early stage development of promising new business ideas which made extensive use of new technologies. By the end of March 2000 we had achieved this with eight businesses, and we had also secured a further £6m of private funding.

In April 2000 we listed as a public company and moved our entire operations into our own leased premises in Clerkenwell. The flotation on AIM raised a further £18m to fund new investments and our own operating requirements. By moving to our own 19,000 sq. ft. premises at The Lightwell in Clerkenwell we achieved our aim of being able to offer investee companies instant access to complete serviced infrastructure with high bandwidth internet connectivity. By this time, we had a core Brainspark team which, though quite small in number, covered a wide skill base in corporate finance, general management, project management, marketing, accounting, human resources and technology. We then invested in a further eight businesses between April and June 2000.

By the early summer we began to experience the negative shift in market sentiment which, by the end of the year, had reached a state best described as one of unbridled pessimism. Despite this deepening market negativity, Brainspark, between May and August, successfully secured second round funding for four of its portfolio businesses. This amounted to a total of nearly £10m raised from third party investors. The average company valuation at which this money was raised was four times that at which Brainspark initially invested. After accounting for the dilutive effect of the new shares issued this gave Brainspark a three-fold increase in the value of its holding in these companies, equating to a total of £3m of valuation gains.

Towards the end of the summer market sentiment deteriorated significantly. Accordingly we materially slowed our investment rate - investing in just one new business between July and December - and focused on the development of our existing portfolio companies. We also adapted our ongoing investment disciplines to ensure resources were devoted only to those businesses which we felt could still thrive in this more hostile environment. This led us to sell or close early some businesses before the year-end whilst intensifying our development efforts with others.

So, our position at the end of 2000 was one of having achieved significant progress in the development of our own new business and of having built a sizeable portfolio of investments, yet finding ourselves in a market environment of extraordinarily low investment activity and minimal visible prospect of this improving in the short to medium term.

## Current Market Overview

When we reported our interim results in September 2000 we said we thought market sentiment was improving. In fact, over the last two quarters of last year we experienced ever decreasing levels of investment activity amongst the venture capital community in our sector. At times in the past few months, this stance has been described by industry participants as a 'buyer's strike.' We do not expect this situation to last forever. Very attractive returns have been achieved in the past by investing at an early stage in new technology-based businesses. The events of the past two years have done much to move the UK towards the levels of interest - and success - experienced for several decades in the United States. Moreover, record levels of private equity funds have been raised for investment specifically in this sector, so considerable pent-up demand exists. However this pent-up demand has not yet prevailed over the market's current pessimism. In this environment, I think management teams serve their shareholders best through increased prudence, and Brainspark should be no exception.

## Brainspark evolution

At the outset, Brainspark was conceived and built to play a role in the initial stage only of financing new business ideas. It would find, develop, and then exit through trade sales or flotations a number of businesses relatively swiftly. This required a more extensive infrastructure of staff and serviced premises in comparison to later-stage investors.

However, the consequence of the current market negativity is that Brainspark is investing in fewer businesses, but for longer. Our initial investment sum may be bigger, and/or we may be extending further funding to businesses which are doing well commercially but which are finding it difficult to raise further funding externally. Moreover, the majority of the businesses in the portfolio now are well past their first six months of development. As a result some are beyond the point where extensive hands-on support will make the difference between success and failure. Adding these factors together, we are at a stage of market development and of our own portfolio's development where Brainspark should evolve its business model. We put this evolution in train at the beginning of 2001, and it has two main elements.

The first involves significantly reducing the number of staff in the Brainspark team. Most of the businesses in the portfolio now require primarily strategic and corporate finance advice only, with some specific technical support. Accordingly, by late Spring we will have reduced the total team complement by 40% from its peak last year, to seventeen in total. I am sorry to be losing all of these individuals from whom we have received a strong contribution over the past year, and I wish them well for the future.

The second element involves the management of The Lightwell premises. At the outset our policy was that investee companies would be based in The Lightwell rent-free until they secured additional third party funding; at this point, we would start charging them a subsidised rent and helping them find their own premises elsewhere. However as a consequence of the lengthening investment cycle we now feel it is advantageous to all concerned to keep some of the more mature businesses in The Lightwell for longer. This is because Brainspark can offer accommodation at competitive rents and in so doing can recoup a material proportion of the running costs of the premises. Again, this process has been in hand for some time now, and it will be developed further over the coming months.

The net effect of these two initiatives, plus tight cost squeezing in general, is that by the end of the second quarter of 2001 Brainspark's monthly operating cost burn rate, net of rental income, is planned to be under £200,000 per month compared to approximately £500,000 per month during 2000. As well as this being a more appropriate configuration of Brainspark's operations at this stage of the market cycle and the portfolio's development, this evolved operating model clearly frees up considerably more of our current cash reserves for further investment in some of our existing investee companies as well as in new projects.

# CHIEF EXECUTIVE'S REVIEW

### Portfolio progress

To date, Brainspark has invested in eighteen projects. Sixteen investments were made by mid-Summer 2000 and one - TraderServe - was made in the latter half of 2000, bringing the total to seventeen at year-end. Since the period end we have made one new investment in The Usability Company, which I shall describe below.

Our portfolio comprises a broad range of businesses including exchanges, web service businesses, and application service providers. Necessarily, as the follow-on funding environment has become tougher, we have had to take a longer-term view in our initial selection criteria and also our decisions on whether we will or will not continue to support businesses which are not attracting new third party funding. This has been the case for the past several months and it will certainly continue.

A number of our investee businesses continue to make good commercial progress. Fortune Cookie is one example. This is now one of the larger web development businesses in the UK which is still independent, with a current staff complement of over 60. In its last full financial year - to August 2000 - the business delivered revenues of £2.7m, and strong profit margins. Many of Fortune Cookie's clients are now established 'off-line' corporates and the company is building a strong reputation in the Media, Travel and Tourism, and Financial Services sectors particularly.

Metapack is another example. This business designs, builds, and manages complex supply chain solutions and has grown to employ 75 technical and operations staff at the period end. In August, only six months after the business was started, Metapack won the contract to be the sole third party fulfilment partner for the newly formed Granada/Boots e-tailing joint venture. Two further contracts are currently in negotiation and contract revenues are projected to be several million pounds by the end of 2001.

A third example, and again a very different kind of business, is Smile-on. This is the leading UK online provider of supplies, ongoing professional training, and information to dental healthcare professionals. So far nearly twenty five percent of UK dentists have registered as users of the website. Smile-on is currently at an advanced stage in establishing a close commercial relationship with a large UK corporation which should enable significant expansion of Smile-on's service reach.

Some other businesses have not made the progress we had originally envisaged. We announced the closure and sale of Hobomedia and Perfectday respectively at the end of last year. We have also made provisions in the year-end accounts for the losses on disposal of our interest in certain other portfolio businesses. One of these disposals is already completed. This is Channel International, the outsourced recruitment process business, which we sold for a nominal amount in January of this year. The aggregate impact of these activities has been a £4.7m reduction in the value of the Company's portfolio. Combined with the £3.0m gain from the upward revaluations earlier in the year, this has left us with a net £1.7m reduction against cost in the portfolio carrying value for the full year.

Regarding new investments, we have made two since announcing our interim results in mid-September last year. The first of these is TraderServe. This is a business which provides remote hosting facilities and data feeds for the proprietary trading models of professional and semi-professional traders. The three founders have between them several decades of experience in designing and managing such systems in large brokerage houses, and of running successful trading operations. We invested £1.25m in this business at the end of September 2000.

The second new investment took place after the 2000 year end. This was a £0.3m investment in The Usability Company, finalised in February of this year. This is a service business which is already trading. It provides research and consultancy solutions to the owners and managers of websites on improving their sites' human interactivity. This is a fast-growing market already, and one which we believe will grow a great deal more in the future.

Brainspark continues to attract a significant number of interesting business plans, and we think the coming year may present some attractive additional investment opportunities.

### Looking ahead

We view capital markets as distinct from fundamental business opportunities, although both affect us strongly. We remain convinced of the enormous potential for value creation presented by the emergence of new technology-enabled businesses. The markets for financing these opportunities have experienced extravagant swings from positive to negative in just twelve months. This is not the first time markets have behaved in this way and it is unlikely to be the last. However, the penetration of internet and mobile access and usage continues to grow around the globe. It is enabling business creation, business growth, and process cost reduction at a faster rate and with lower capital expenditure than ever has been possible in the past. Brainspark was set up to facilitate, and to benefit from, the early stage growth of new companies exploiting these opportunities.

In parallel with our work on 'pure' start-ups, we have seen, over the past few months, increasing interest in co-operative ventures with large corporations. We believe that such co-operation will present some of the most attractive opportunities in the period ahead. We are investing in our relationship with Royal & Sun Alliance to this end, and hope to announce our first joint project shortly. We continue to discuss similar opportunities with a number of others.

Our investments so far have encompassed a broad mix of business models, including online trading, service provision and the supply of enabling tools and technologies. Of our current investee companies, Traderserve and iProx are examples of the latter. It is this area of technology and infrastructure on which we are now focusing more of our efforts.

In Brainspark, we have adopted a 'hands-on' approach to our investee companies in order to reduce the risk inherent in start-ups, and we have sought to build an environment where the companies would benefit from growing together. Our restructuring was undertaken in the interests of maximising long-term shareholder value through prudent cash flow management. We intend it to affect the volume and not the quality of our current activities. Neither our purpose nor our belief in the strength of our model has changed, and we remain fully committed to both.

Finally, I would like to thank Barbara, Alwyn, Mark and Martin for their very valuable contribution over the year. I am delighted that Don Caldwell, an individual with a great deal of hands-on experience relevant to the particular challenges ahead, became Chairman on 28 February 2001. I look forward to working with him in Brainspark's next stage of development.

STEWART DODD CHIEF EXECUTIVE

# FINANCIAL REVIEW

## Summary

Company Net Asset Value has decreased by £6.7m since its peak post-flotation in April 2000, within which the investment portfolio has decreased in value by £1.7m. Monthly operating cash requirements averaged £0.5m over the year, and will now be reduced to under £0.2m per month by mid-2001; cash reserves remain healthy at £9.8m at year end.

## Operating Loss

The consolidated operating loss for the year was £14.2m. This comprises recurring Group operating expenses of £5.6m, exceptional operating expenses of £4.1m relating to the Employee Benefit Trust and employer's National Insurance, and £4.5m for the Group's share of the net operating losses and goodwill amortisation in the partner companies. The actual cash outflow from operating activities was £6.3m (see right).

## Exceptional items

Consolidated profit on deemed disposals (the increase in value of Brainspark's share in the net assets of three partner companies following further third party funding) totalled £1.4m for the year. Consolidated losses, arising from losses on disposal and provisions for loss on disposal of interests in partner companies, totalled £2.4m.

## Interest earned

This was £0.7m for the year, and arose from the investment of surplus cash balances, averaging £13.4m over the year, at an average interest rate of 5.5%.

## Earnings

The basic loss per ordinary share was 14.9p, being the retained loss for the year of £14.6m divided by an average of 97.6m ordinary shares in issue during the year.

## Movement in Net Asset Value

Company Net Asset Value (NAV) at 31st December 2000 was £24.0m, or 19.5p per share. This compares to £7.1m as at 31st December 1999, and £30.7m (or 24.9p per share) immediately after the Company's flotation on April 7th 2000.

The decrease in NAV of £6.7m between April 7th and the year end is accounted for by operating costs for the period, and the net decrease in the Company balance sheet value of the investment portfolio, of £1.7m. This figure is accounted for by £3m total gains, less £4.7m total losses. Being analysed at the Company not the Consolidated level these figures differ from the figures explained under 'exceptional items' above, because they exclude Brainspark's share of the movement in net assets arising from operating losses and the amortisation of goodwill in the relevant portfolio companies.

## Funding and cashflows

At the start of the year Brainspark's consolidated cash balances were £3.6m. During the year a further £26.8m was raised primarily from the mezzanine funding round in March and the flotation in April. Cash outflows during the year were £6.3m on operating activities (including £0.3m in EC1 Media which is a subsidiary), £1.4m on fixed assets, £5.3m loaned to the Employee Benefit Trust which invested the proceeds in Company shares, and a further £8.2m of investments in partner companies (including EC1 Media), bringing the total invested to date in portfolio companies to £11.7m. This includes the £1.6m of Company shares exchanged for Brainspark's stake in Petspark. Cash reserves at the end of December 2000 were £9.8m.

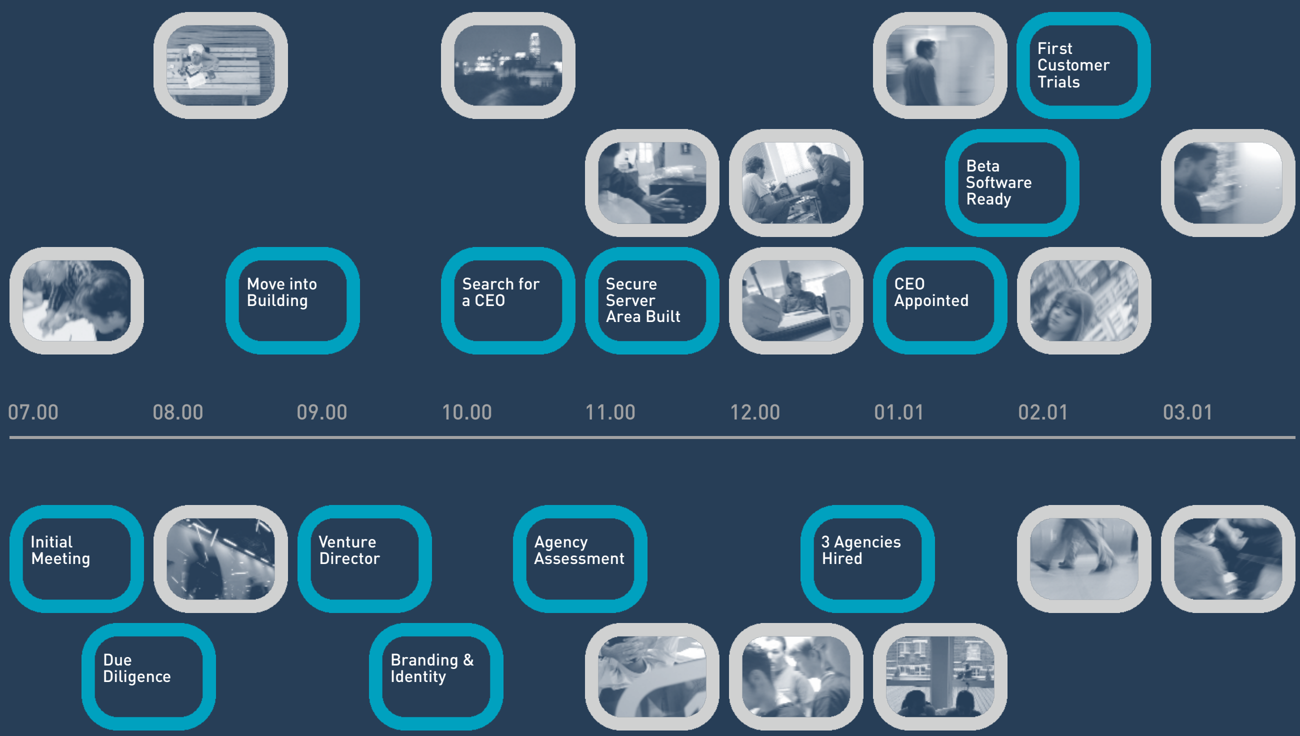
## Tax

Brainspark Plc and its subsidiaries have no trading profits for the year and therefore no tax charge. The trading losses incurred are available for relief against future taxable profits but this potential deferred tax asset has not been recognised in the financial statements for the year 2000 in accordance with the Group's deferred tax accounting policy. The share of associated undertakings tax charge for the year relates to Brainspark's interest in Fortune Cookie.

## Treasury policy

Surplus cash funds are deposited with third party banks with a high credit rating. The security of these deposits and the interest rates earned are monitored on a regular basis against the products and services of competing financial institutions. The Group's financial instruments comprise cash, trade debtors, and trade creditors only.

# CASE STUDY No 1
# TRADERSERVE



CASE STUDY No 1
TRADERSERVE

## TRADERSERVE PROVIDES A SOPHISTICATED MODEL BUILDING AND HOSTING SERVICE TO PROFESSIONAL TRADERS OF STOCKS, BONDS, CURRENCIES AND FUTURES. THE AIM OF THE BUSINESS IS TO PROVIDE A SERVICE THAT SUPPORTS AND FACILITATES REAL-TIME STRATEGIC TRADING AT A LEVEL WHICH, UP UNTIL NOW, HAS ONLY BEEN ACHIEVED BY THE LARGEST HEDGE FUND MANAGERS.

TraderServe provides a sophisticated model building and hosting service to professional traders of stocks, bonds, currencies and futures. The aim of the business is to provide a service that supports and facilitates real-time strategic trading at a level which, up until now, has only been achieved by the largest hedge fund managers. As with the majority of our investments, Brainspark was introduced to the business through a contact. Peter Swete, Nick Idelson and Nicholas Hallam, the founders of TraderServe, had many years experience in global investment banking and fund management houses and proven expertise in developing and operating real-time trading architectures and trading strategies.

It was agreed that Brainspark would take an equity stake for an investment of £1.25 million. The investment took into consideration the technology costs required to reach proof of concept stage. Heads of terms were finally signed on the 21st September 2000, but in reality work had begun way before this and TraderServe had a desk in Brainspark from the end of August.

Investing in a company is just the beginning. The process of incubation then requires the input of different people at different points in its development. On a practical level, TraderServe needed a secure area for their servers and equipment, so we built it for them. At the other end of the scale, we helped them through the process of creating their name and visual identity.

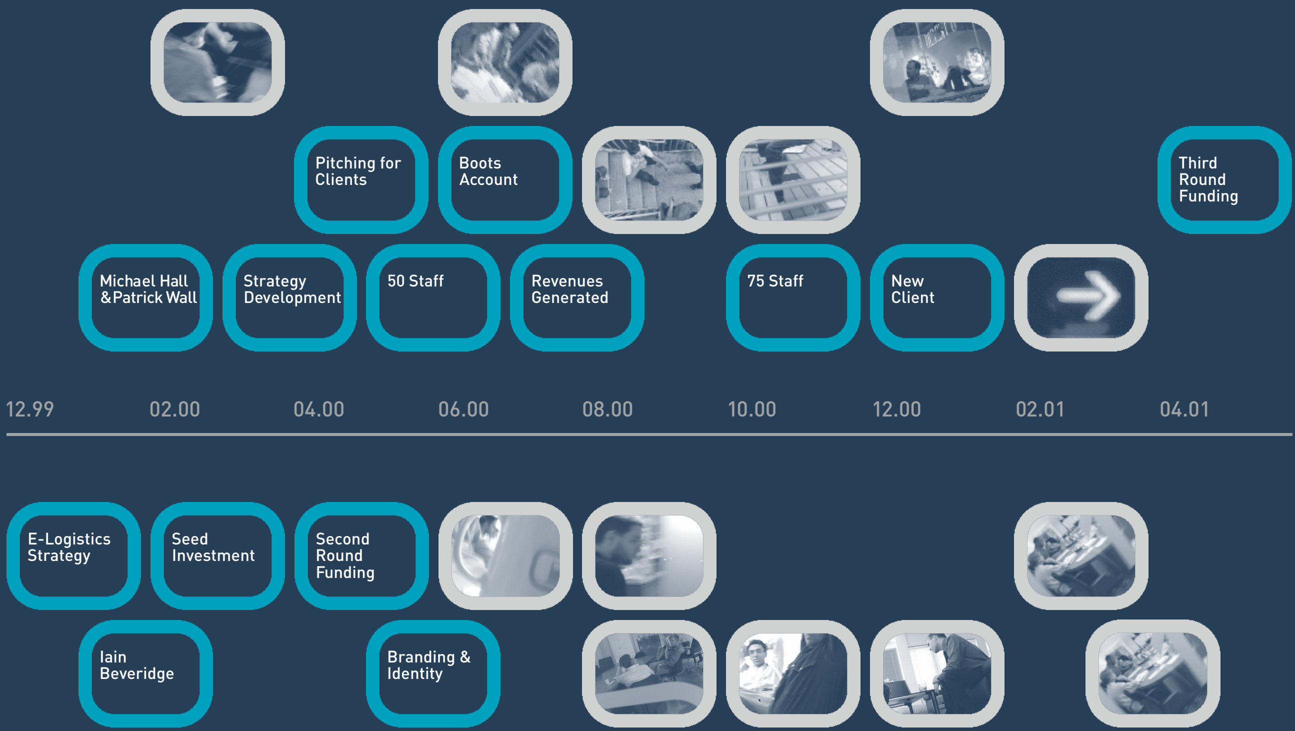
The three founders have enormous expertise in the technical elements of modelling and financial trading systems and their focus was on building this infrastructure. The founders had decided that they needed to hire an experienced CEO but this was liable to be a lengthy process. So this left an immediate requirement to introduce essential business processes into the management of the company. These processes were largely managed by Gawaine Lewis and Will Lovegrove of Brainspark. Gawaine is TraderServe's venture director. Each of our partner companies is allocated a member of the Brainspark team who spends a good deal of time with that company making sure that they have all the resources they need and that they are executing their business plan.

Will Lovegrove's role with TraderServe has involved managing the process of hiring external agencies. Will took TraderServe through the process of briefing agencies, assessing their potential for the projects and then introducing project management processes. TraderServe has hired three agencies; one for its web design; one for its graphical interface; and a third for its middleware, building a sophisticated client management system.

The requirement for TraderServe to hire a CEO was something that Brainspark was also able to help with. It was a difficult task to get the right person especially for a start-up. But by using our contacts and advice we were able to source potential candidates and work closely with TraderServe in the selection and subsequent negotiations.

The next stage for TraderServe is for them to produce a live demonstration of part of their product offering. Once this is complete, the process of looking for follow-up funding will begin.

## CASE STUDY No 2
## METAPACK



CASE STUDY No 2
METAPACK

## SOON AFTER BRAINSPARK WAS LAUNCHED, WE PERCEIVED THE NEED FOR AN EXPERTISE IN E-LOGISTICS AND E-FULFILMENT, BASED ON THE EXPERIENCE OF OUR EXISTING PORTFOLIO COMPANIES. WE PLACED AN ADVERTISEMENT IN THE SUNDAY TIMES ASKING FOR 'BRICKS-AND-MORTAR' OVER-ACHIEVERS AND HAD A TREMENDOUS RESPONSE.

Soon after Brainspark was launched , we perceived the need for an expertise in e-logistics and e-fulfilment, based on the experience of our existing portfolio companies. We placed an advertisement in the Sunday Times asking for 'bricks-and-mortar' over-achievers and had a tremendous response. One of the people to contact us was Iain Beveridge who had worked for N. Brown. We liked Iain and this oppotunity so much that we felt the whole new business could be built around them. We suggested he should come back to us as soon as possible with a team and a specific business plan.

Coincidentally, Iain had already been contacted by two would be entrepreneurs: Michael Hall, formerly from Deutsche Bank and Patrick Wall, who came from Hays plc. Their Metapack concept fitted the needs of Brainspark and Iain. After meeting Michael and Patrick for the first time on Monday, we met again on Thursday. On Friday, they were given a cheque for £50,000 so that they could recruit their first staff. They had moved in to our building by Monday, one week after the initial meeting. A short time later it was agreed that Brainspark would make an initial investment of £400,000.

In May Metapack successfully completed its second round of funding from WPP, the world's largest marketing services group, and Cross Atlantic Capital Partners, the specialist technology investors.

At the same time, they were spending a lot of effort selling the Metapack proposition to potential clients and hiring staff. By June they were up to about 50 staff, with both operational and technology expertise, and were in discussions with Boots to see whether Metapack could manage their e-logistics and fulfilment needs for their planned online operations. In July the team won the Boots account.

By August, Metapack was generating revenues and it continued to hire additional members of the team through to the end of 2000.

New work, new pitches, and further fundraising have been the main preoccupation for Metapack in the first few months of 2001. The biggest client project has been preparation for the launch in early spring of Boots and Granada Media's integrated TV and web venture 'Wellbeing' for which Metapack will provide all e-logistics solutions.

On 3 April 2001 Metapack announced the successful completion of their third round funding by Cazenove Private Equity (a new investor), Cross Atlantic Capital Partners and Top Technology.

# PARTNER COMPANIES

Smile-on
Portal site for
dental professionals.
www.smile-on.com

Fortune Cookie
Interactive and web
development agency.
www.fortune-cookie.com

iProx
Mobile phone
location software.
www.iprox.com

The Usability Company
Consultancy specialising
in assessing the
effectiveness of digital
platforms for the user.
www.theusabilitycompany.com

Globe-rail
B2B portal for the global
rail industry.

Kerb
Web design and digital
animation agency.
www.kerb.co.uk

EC1 Media
Interactive digital
production, design
and strategy consultancy.
www.ec1media.com

TraderServe
Provider of hosting and
services to financial traders.
www.traderserve.com

Metapack
E-logistics and
e-fulfilment
solutions provider.
www.metapack.com

Propex
Private marketplace
for commercial property
investment professionals.
www.propex.co.uk

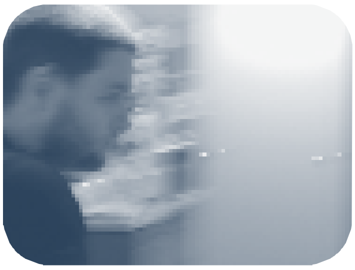
Gasworld
B2B market place for
the global industrial
gases industry.
www.gasworld.com

LeisureHub
B2B marketplace for
businesses in the
leisure industry.
www.leisurehub.com

Petspark
On-line household
pet portal.
www.petspark.com

Que Pasa Media
On-line media
solutions agency.
www.burnitblue.com

EasyArt
B2C and B2B
online supplier of
framed artwork.
www.easyart.com



## PARTNER COMPANIES

iProx™

smile-on.com
dentistry... the works

kerb カーブ

fortune cookie

EC1 MEDIA

PROPEX

gasworld

LeisureHub.com
worldwide trading community

quepasamedialtd

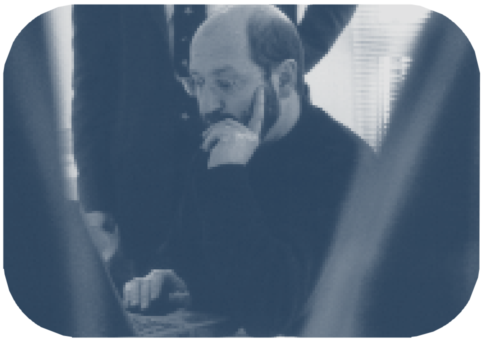
easy art

GLOBE=RAIL

# DIRECTORS AND ADVISERS

**Barbara Thomas**
Non-Executive Chairman (to 28 February 2001)

**Stewart Dodd**
Chief Executive Officer



**Alwyn Welch**
Chief Operating Officer (to 28 February 2001)

**Noah Freedman**
Chief Technical Officer

**Mark Harford**
Chief Financial Officer and
Company Secretary (to 28 February 2001)

**Martin Fiennes**
Non-Executive Director (to 2 April 2001)

**Sheryl Daniels-Young**
Non-Executive Director

**Paul Corley**
Senior Independent
Non-Executive Director

# DIRECTORS AND ADVISERS

## Don Caldwell
### Non-Executive Chairman (from 28 February 2001)

Chairman and Chief Executive Officer of Cross Atlantic Capital Partners which is a significant Brainspark shareholder. He is a former President and Chief Operating Officer of Safeguard Scientifics Inc and he is also currently a non-executive director of several leading companies in the US and Chairman of Crucible Corporation, a seed fund based in Ireland. Age 54.

## Barbara Thomas A I N R
### Non-Executive Chairman (until 28 February 2001)

Was appointed 1 March 2000 and is the Chairman of the Remuneration and Nominations Committees. She is the non-executive chairman of Axon Group Plc, executive chairman of Net Investor Plc, deputy chairman of Friends Provident Life Office and a former commissioner of the US Securities and Exchange Commission. Age 54.

## Stewart Dodd I N
### Chief Executive Officer

Was appointed 1 March 2000 and is Chairman of the Investment Committee and a co-founder of Brainspark in June 1999. Was most recently the head of the WestLB Panmure technology group with a focus on internet related businesses and prior to that founded Nomura International's technology group practice. In addition he has been involved with a number of internet ventures including Zeus Technologies Limited, a Cambridge based software business. Age 38.

## Alwyn Welch I
### Chief Operating Officer (resigned 28 February 2001)

Was appointed 9 March 2000 and was most recently chief executive of the UK, Ireland and Asia Pacific businesses of Cap Gemini S.A. and a member of Cap Gemini's group executive committee. As a chartered electronics engineer he has previously worked for Plessey Electronic System Research Limited, a role which included M&A activity, sourcing technology and IT management. Age 43.

## Noah Freedman I
### Chief Technical Officer

Co-founder of Brainspark in June 1999, was appointed 9 March 2000 and has worked in the technology industry for over twenty five years. Most recently he led advanced technology company and market analysis for the WestLB Panmure technology group. Prior to this he was a partner in the Communications and Electronic Systems practice of PA Consulting Group. Age 51.

## Mark Harford I N
### Chief Financial Officer and Company Secretary (resigned 28 February 2001)

Was appointed 14 June 2000 from Bass Plc where he was Director of Strategic and Financial Planning for Bass Leisure Retail, the company's pubs, bars and restaurants business. At Bass he was involved in extensive M&A activities. Prior to this he was a strategy consultant. Age 36.

## Jasper Judd
### Chief Financial Officer and Company Secretary (appointed 28 February 2001)

A Chartered Accountant with fifteen years of financial and general management experience in a wide range of businesses from high growth start-ups to Plcs. He is a former executive of Booker Plc and more recently was Chief Operating Officer of Easyart Limited, a Brainspark partner company. Age 40.

## Martin Fiennes A I R
### Non-Executive Director (resigned 2 April 2001)

Was appointed 1 March 2000 and is an investment manager with Top Technology Ventures, an early stage venture capital company for UK based businesses which is a significant Brainspark shareholder. He is a director of three other companies in which Top Technology have made an investment, FOL Networks Limited, Focus Solutions Group Plc and Family Genetix Limited. Age 40.

## Sheryl Daniels-Young A I R
### Non-Executive Director

Was appointed 1 March 2000 and is the managing partner of the UK office of Cross Atlantic Capital Partners which is a significant Brainspark shareholder. She is also a general partner in their fund with over twenty years experience in the information technology industry. Prior to this she served as vice-president and senior equity analyst for J.P. Morgan Securities in New York focusing on information technology companies. Age 44.

## Paul Corley A I N R
### Senior Independent Non-Executive Director

Paul Corley was appointed 17 November 2000 and is the Chairman of the Audit Committee. He was formerly CEO of Border Television Plc and has spent almost 25 years in television where he has held a number of senior positions including Producer of Channel Four's The Tube and Controller of Factual and Regional programmes at ITV. Has recently been appointed Managing Director of GMTV. Age 50.

## Andrew Hawkins
### Non-Executive Director (appointed 28 February 2001)

Is currently a partner at Palamon Capital Partners and headed up WestLB Panmure's technology group. A Chartered Accountant, he is a former Chief Financial Officer of Delmonte Foods International. Age 42.

A Member of the Audit Committee during the period
I Member of the Investment Committee during the period
N Member of the Nominations Committee during the period
R Member of the Remuneration Committee during the period

## Professional advisers

| | |
|---|---|
| Solicitors | Gouldens |
| Auditors | PricewaterhouseCoopers |
| Bankers | Barclays Bank Plc |
| Brokers | SchroderSalomonSmithBarney |
| Registrar | Capita IRG Plc |
| Insurance brokers | Opus Consulting Group Limited |

# DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

## Activities

The principal activity of the Company is the provision of incubation services to internet start up businesses which provide entrepreneurs with support resources needed to help them manage the early stage transition from idea conception to established business.

## Review of business

The Company was floated on the Alternative Investment Market (AIM) on 7 April 2000 raising £18.6 million and has to the year end date invested £11.7 million in seventeen partner companies.

During the year four of the partner companies, Petspark, Metapack, Leisurehub and Easyart raised second-round financing which provided Brainspark with an average company revaluation multiple of just over three times.

In December 2000 the Company closed or sold two partner companies. In January 2001 additional provisions were made for the losses on disposal of interests in certain other portfolio businesses including one which was sold for a nominal amount in January.

## Future developments

Brainspark will continue to invest in attractive early stage opportunities in the internet and technology arena. Increasingly the focus will be on cooperative ventures with large corporations, core technologies, and infrastructures.

## Directors

The members of the Board of Directors together with brief biographies are shown on page 15.

As part of the restructuring of the Company, the following Board membership changes took place with effect from 28 February 2001: Don Caldwell of Cross Atlantic Capital Partners, Brainspark's largest shareholder, joined the Board as Chairman replacing Barbara Thomas who remained on the Board as a non-executive director. Alwyn Welch, the Chief Operating Officer and Mark Harford, the Chief Financial Officer left the Board and their two roles were combined and fulfilled by Jasper Judd formerly of EasyArt Limited. Andrew Hawkins of Palamon Capital Partners joined the Board as an additional non-executive director.

On 2 April 2001, Martin Fiennes resigned as a non-executive director.

In accordance with the Articles of Association, S.M. Dodd and N. Freedman retire by rotation at the Annual General Meeting and being eligible, offer themselves for re-election. For biographical details of these directors see page 15.

No director during the period had a material interest in any contract of significance to the Group or any of its subsidiaries and as at 31 December 2000, no directors of the Company had any beneficial interests in the shares of its subsidiary companies. Directors' interests in the shares of the Company are shown below.

The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors and officers in the discharge of their duties.

## Directors' interests

The directors serving during the year ended 31 December 2000 had the following interests in the ordinary share capital of the Company:

| | Number of shares |
|---|---|
| **Executive Directors** | |
| S.M. Dodd | 16,306,290 |
| A.F. Welch | - |
| N. Freedman | 3,423,420 |
| M.J. Harford | 13,500 |
| **Non-Executive Directors** | |
| B.S. Thomas | 330,330 |
| S. Daniels-Young | - |
| M.G. Fiennes | 2,400 |
| P.J. Corley | - |

Directors' outstanding options to acquire ordinary shares are shown in the Remuneration Committee report on page 19.

There were no changes in the above interests of the directors in the issued shares of the Company between 31 December 2000 and 24 April 2001.

The new directors appointed on 28 February 2001 had the following interests in the ordinary share capital of the Company:

| | Number of shares |
|---|---|
| D.R. Caldwell | - |
| J.R. Judd | 95,317 |
| A.P. Hawkins | 52,540 |

The market price of the ordinary shares at 31 December 2000 was 60.5p and the highest and lowest mid market price during the year were 132.5p and 60.5p respectively.

# DIRECTORS' REPORT

### Substantial shareholder interests

As at 24 April 2001, substantial interests in the ordinary shares of the Company notified to the Company in accordance with Sections 198-208 of the Companies Act 1985 were as follows:

| | Number of shares | % of shares |
|---|---|---|
| Cross Atlantic Technology Fund | 33,916,050 | 27.5 |
| HATT III LP (managed by Top Technology) | 26,086,060 | 21.2 |
| S.M. Dodd | 16,306,290 | 13.2 |
| Unibank A/S (co-investor with Top Technology) | 6,516,510 | 5.3 |
| M&G Investment Management | 4,885,496 | 4.0 |
| Brainspark Employee Benefit Trust | 4,236,329 | 3.4 |

### Employee policy

It is the policy of the Group that disabled people shall be considered for all job vacancies and subsequent career and promotional opportunities on the basis of their aptitudes and abilities and that there shall be no unjustifiable discrimination in any aspect of employment on the grounds of colour, religion, nation of origin or marital status.

The Group attaches great importance to the quality of its communication with all employees and they are provided with information about the performance of the Company through regular management meetings and informal discussions.

Regular consultation takes place with employees concerning work methods and organisation so that their views can be taken into account in all matters affecting their interests.

The Company recognises its responsibility for the health and safety of its employees and regularly carries out reviews of its compliance with the requirements of the Health and Safety at Work Act 1974.

### Corporate Governance

Details of the Company's corporate governance policy and its compliance with the principles of the Combined Code are shown on pages 20 to 21.

### Creditor payment policy

The Group's policy is to settle all trade creditors balances in accordance with the terms of business agreed with the supplier. The Group's average creditor payment period at 31 December 2000 was 23 days.

### Charitable and political contributions

There were no charitable or political donations made during the year (1999 - nil).

### Share capital

For details of movements in the Company's share capital during the year see note 23 to the financial statements.

### Purchase of own shares

At the time of the flotation in April a loan of £5.3 million was made to an Employee Benefit Trust, which invested the proceeds in 4,236,329 ordinary shares of the Company. The trust was established to cover actual and potential national insurance liabilities arising on the exercise of warrants held by employees and partner company managers at the time of the flotation (see note 17 to the financial statements).

### Annual General Meeting

For details see Notice of Annual General Meeting accompanying the Report and Accounts.

### Auditors

The auditors PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board
J.R. Judd
Company Secretary

24 April 2001

# REMUNERATION COMMITTEE'S REPORT

The Remuneration Committee of the Board (the Committee) comprised the four non-executive directors of the Company, B.S. Thomas (chairman), P.J. Corley (senior independent non-executive director), M.G. Fiennes and S. Daniels-Young. The Committee is responsible for setting the remuneration of the executive directors including bonuses,share options and benefits. The Board determines the remuneration of the non-executive directors who do not participate in the Company's share option scheme or receive any other benefits.

## Remuneration policy

The Committee reviews remuneration levels annually and attempts to ensure that they are set at a level which is in line with packages available in comparable companies in the industry, are capable of attracting, retaining and motivating directors of appropriate calibre, are consistent with the performance of the Company and at the same time are aligned with the best interests of the shareholders.

The Committee receives advice from external remuneration advisers and consults with the Chief Executive where appropriate.

The Chairman is responsible for maintaining contact with the principal shareholders about remuneration matters.

## Service contracts

All of the executive directors have service contracts with the Company. These contracts are not of fixed length but require six months notice of termination by the Company or the executive, with the exception of A.F. Welch whose contract requires three months notice by either party. All the non-executive directors have service contracts which are not fixed in length but are terminable with a notice period of three months by the Company or non-executive director.

## Directors remuneration

The remuneration packages of the executive directors comprise basic salaries, annual cash bonuses, share option entitlements, contributory pension scheme and benefits in kind which are determined as follows:

Basic salaries are determined in accordance with annual rates of inflation and levels of remuneration paid by comparable companies. Annual cash bonuses are discretionary and are determined on the basis of executives individual performance and the Group's performance.

Share options are determined in accordance with the rules of the Executive Share Option scheme and are limited to four times annual salary. The grant of options by the Committee is based on the performance of the executive director and also reflect any promotions or salary increases since the previous date of granting options.

An externally administered contributory Group personal pension scheme is available with employer contributions of 7.5% of basic salary.

Benefits in kind include private medical cover for individuals, their spouses and dependents.

Remuneration received by each director during the year was as follows:

| | Salary and fees £000 | Benefits £000 | Pensions £000 | 2000 Total £000 | 1999 Total £000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| S.M. Dodd (appointed 1 March 2000) | 130 | - | 5 | 135 | 55 |
| N. Freedman (appointed 9 March 2000) | 98 | 1 | 8 | 107 | - |
| A.F. Welch (appointed 9 March 2000, resigned 28 February 2001) | 109 | 1 | 8 | 118 | - |
| M.J. Harford (appointed 14 June 2000, resigned 28 February 2001) | 63 | 1 | 4 | 68 | - |
| **Non-executive directors** | | | | | |
| B.S. Thomas (appointed 1 March 2000) | 42 | - | - | 42 | - |
| S. Daniels-Young (appointed 1 March 2000) | 11 | - | - | 11 | - |
| M.G. Fiennes (appointed 1 March 2000, resigned 2 April 2001) | 11 | - | - | 11 | - |
| P.J. Corley (appointed 17 November 2000) | 3 | - | - | 3 | - |
| **Total** | **467** | **3** | **25** | **495** | **55** |

There were no bonuses paid or accruing to directors during the year.

Directors interests in share options and warrants

At 31 December 2000, the following directors had outstanding options and warrants to acquire ordinary shares of the Company under the schemes described in note 23 to the financial statements:

| | Date of grant | Earliest exercise date | Expiry date | Exercise price pence | Number at 1 Januuary 2000 | Number granted in year | Number exercised in year | Number at 31 December 2000 |
|---|---|---|---|---|---|---|---|---|
| **Series A warrants** | | | | | | | | |
| N. Freedman | 1-Mar-00 | 1-Mar-01 | 1-Mar-03 | 9.53 | - | 1300000 | 188154 [1] | 1111846 |
| **Series B warrants** | | | | | | | | |
| S.M. Dodd | 1-Mar-00 | 1-Mar-01 | 1-Mar-03 | 57.10 | - | 1650000 | - | 1650000 |
| N. Freedman | 1-Mar-00 | 1-Mar-01 | 1-Mar-03 | 57.10 | - | 500000 | - | 500000 |
| A.F. Welch | 1-Mar-00 | 1-Mar-01 | 1-Mar-03 | 57.10 | - | 4740000 | - | 4740000 |
| **Other warrants** | | | | | | | | |
| M.J. Harford | 30-Jun-00 | 30-Jun-01 | 30-Jun-10 | 125.00 | - | 650000 | | 650000 |
| **Executive share options** | | | | | | | | |
| M.J. Harford | 15-Jun-00 | [2] | 15-Jun-10 | 125.00 | - | 307149 | - | 307149 |
| M.J. Harford | 15-Jun-00 | 15-Jun-03 | 15-Jun-10 | 110.50 | - | 27149 | - | 27149 |

In addition to these Company schemes M.J. Harford was granted 200 share options on 24 November 2000 in a partner company share option scheme which is not a share option scheme utilising Brainspark Plc shares.

[1] On 6 April 2000 188154 Series A warrants were exercised by N. Freedman at 125p and the ordinary shares arising on such exercise became part of the share package purchased by the Employee Benefit Trust (see note 17 to the financial statements). The gain realised on exercise of £217261 was to enable him to satisfy any potential personal tax liabilities.

[2] 50% exercisable on 15 June 2001 and remaining 50% on 15 June 2002 at the earliest.

Between 31 December 2000 and 24 April 2001 there were no changes in the above interests of directors in share options over the ordinary shares of the Company.

B.S. Thomas
Chairman of the Remuneration Committee

24 April 2001

# CORPORATE GOVERNANCE

### Combined Code
The Board of Directors is accountable to the Company's shareholders for ensuring good corporate governance and the directors support the principles of the Combined Code.

However being a new company which has only been listed since April 2000, the directors have decided to move towards full compliance with the Code over a period of time which is appropriate to the business.

The Company is obliged to report on its compliance with the Combined Code and the directors believe it has complied with the provisions of the Code throughout the period since April 2000, except in relation to senior independent non-executive directors and Committees having not operated throughout the period and other matters referred to below.

### Board of Directors
The Board comprised four executive directors including the Chief Executive Officer and four non-executive directors including the Chairman and the senior independent non-executive director, Mr Paul Corley. Prior to his appointment on 17 November 2000 there was no senior independent non-executive director.

The two remaining non-executive directors, S. Daniels-Young and M.G. Fiennes were deemed to be non-independent due to them representing the interests of two venture capital organisations which together own some 55% of the Company's share capital. This arrangement is however common place in the business start-up industry and the existing Board structure still ensures an appropriate balance of management responsibilities and decision making authorities.

The composition of the Board and detailed biographies of the directors are shown on page 15.

The Board is responsible for the overall management of the Group and meets at least once a month. The Board receives monthly reports from management on key issues such as investment strategy, financial performance and operational matters for which there is a prescribed timetable.

In addition the Board has a schedule of matters specifically reserved for its decision which includes the approval of investment decisions and other significant transactions, the approval of annual results and budgets,the setting of corporate objectives and strategy and any matters relating to the Company's share capital. Other matters are delegated to Board Committees, details of which are provided below.

Directors receive agendas and detailed monthly Board papers at least five days before each meeting together with regular and ad hoc reports and presentations. The directors also hold informal meetings as well as staying in regular contact regarding urgent issues affecting the Group.

Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and also can take advice from the Company's lawyers Gouldens at the Company's expense. No such legal advice was sought during the year.

On appointment and as necessary thereafter directors receive technical information about their responsibilities and duties from the Company's legal advisers.

In accordance with the Company's Articles of Association, all directors are subject to election by shareholders at the first opportunity after their appointment by the Board and to re-election at intervals of no more than three years. Non-executive directors are appointed to the date of the next AGM in the first instance and thereafter their contracts may be terminated by either the Company or the non-executive giving a three months notice period.

### Board Committees
The Board has delegated specific responsibilities to its committees which have fixed terms of reference. The main committees established are the Investment, Audit, Remuneration and Nominations Committees and the membership of these committees is shown in the Directors' biographies on page 15 and further details given below.

### Investment Committee
The Investment Committee has been operational since the founding of the Company but was formally established on 14 June 2000. The Committee meets whenever significant investment matters arise which are not dealt with in the normal course of Board business and comprises all of the Company's directors. The Committee considers new business proposals received by the Company and evaluates the business plans, negotiates investment terms and where appropriate makes investment recommendations to the Board.

### Audit Committee
The Audit Committee was established on 17 August 2000 and has met once during the year and once since the year end. The Committee is responsible for dealing with accounting matters, financial reporting and internal controls and comprises the four non-executive directors with the Chief Financial Officer and representatives of the auditors PricewaterhouseCoopers being invited to attend these meetings.

The Committee reviews the interim and annual financial statements and receives reports from the external auditors on internal controls and accounting issues before they are submitted to the Board for approval. The Committee also monitors the effectiveness of the external audit process and sets the remuneration of the auditors.

### Remuneration Committee
The Remuneration Committee was established on 14 June 2000 and has met twice during the year and once since the year end.

The Committee is responsible for the approval of the remuneration and benefits for the executive directors in accordance with the Group's remuneration policy framework.

The Committee comprised the four non-executive directors with the Chief Executive Officer invited to attend in an ex officio capacity. The Committee has access to independent remuneration consultants and in framing its remuneration policy has given full consideration to the provisions of Section 1B and Schedule A to the Combined Code.

The Remuneration Committee's Report is set out on pages 18 to 19.

### Nominations Committee
The Nominations Committee was established on 17 January 2001 and has met once since the year end. The Committee comprises the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Senior Independent Non-Executive Director and is responsible for making recommendations to the Board about filling vacancies for executive and non-executive directors.

The Committee reviews the composition of the Board and its committees at least once a year and is authorised to employ the services of recruitment advisers to assist them in carrying out their duties.

### Relations with shareholders
The executive directors meet regularly with representatives of institutional investors and analysts to discuss their views and ensure that the corporate objectives and strategies of the Group are well understood. The Company's shareholders are sent interim and annual reports and accounts and all shareholders are entitled to attend the Annual General Meeting and receive a Notice of the Meeting at least twenty working days before the AGM date. At this meeting there will be a presentation by Board members of the Group's performance during 2000 together with a brief statement on current trading and shareholders may raise questions with the Chairman on these and other matters relating to the Group's business.

All members of the Board will be in attendance at the Annual General Meeting and will be available to meet shareholders informally after the meeting. The Company will advise shareholders attending the AGM of the number of proxy votes lodged for and against each resolution after each resolution has been dealt with by a show of hands.

### Directors' responsibilities
The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group at the end of the financial year and of the profit and loss for the financial year. The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for the maintenance and integrity of the website and acknowledge that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that the financial statements have been prepared on a going concern basis using applicable accounting standards, suitable accounting policies that have been applied consistently and supported by reasonable and prudent judgments and estimates.

The directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

### Internal control
The Board recognises its responsibilities for internal controls of the Group, and following the publication of the Turnbull Report on 'Internal Controls Guidance for Directors', has since October 2000 put in place the procedures necessary for reviewing the Group's system of internal control and assessing the nature and extent of the risks facing the Group.

These procedures include a six monthly discussion of risk management reviews which are undertaken to identify all the key strategic, operational, financial and compliance risks and assess the likelihood and potential impact of these risks arising. Following this review a list of recommendations for improvement where applicable is made and the control procedures implemented as soon as possible.

The Group's risk management policy has been communicated to senior management and the procedures for internal control are set out in an operations manual which has been distributed with a staff policy handbook to all Group employees.

The Board confirms that it has reviewed the effectiveness of the Group's current systems of internal control and that these procedures meet the requirements of the Combined Code.

The Board acknowledges its responsibility for the Group's system of internal financial control and for reviewing its effectiveness in safeguarding the Group's assets, ensuring proper accounting records are maintained and that the financial information used within the business and for publication is reliable. These controls however by their very nature can only provide reasonable but not absolute assurance against material misstatement or loss. The key features of the Group's system of internal financial control which have been developed during the course of the year are outlined below.

**a)** a management structure exists with clearly defined lines of responsibility and appropriate levels of delegation.

**b)** an established system exists for the authorisation of all significant transactions such as investments, capital expenditure and all other non routine expenditure items.

**c)** there is a rigorous strategic planning, annual budgeting and forecasting process against which actual performance is compared.

**d)** a system of monthly reporting by each subsidiary and associated undertaking exists which provides management with detailed financial and operational information which is reviewed by management for inclusion in the consolidated results.

**e)** a consolidation of the whole Groups' financial results is prepared on a monthly basis and published every six months in the form of interim and final statutory reports.

**f)** the directors regularly receive reports from external auditors via the Audit Committee and internal finance staff on internal control and risk management matters.

**g)** the adequacy of insurance cover is regularly reviewed by management and the Board.

### Internal audit
The Board have considered the need for an internal audit function but have concluded that given the current size and nature of the business such a function is not currently necessary.

### Going concern
The directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis for preparing the financial statements.

# AUDITORS' REPORT TO THE MEMBERS OF BRAINSPARK PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the statement of total recognised gains and losses and related notes (including the additional disclosures relating to the remuneration of the directors specified for our review by the Financial Services Authority) which have been prepared under the historical cost convention and in accordance with the accounting policies set out in the statement of accounting policies.

## Respective responsibilities of directors and auditors

The directors responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 21. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement on pages 20 to 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors, Reading

24 April 2001

# FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000

| | Notes | Year ended 31 December 2000 £000 | Period from 3 June 1999 to 31 December 1999 £000 |
|---|---|---|---|
| **Turnover** | 2 | - | - |
| Net operating expenses - recurring | 3 | (5644) | (373) |
| Net operating expenses - exceptional | 3 | (4054) | - |
| **Total net operating expenses/group operating loss - continuing** | | (9698) | (373) |
| Share of operating profit(loss) of associated undertakings | 4 | (4548) | (246) |
| **Total operating loss: group and share of associated undertakings** | | (14246) | (619) |
| **Exceptional items** | | | |
| Profit on deemed disposal of interests in associated undertakings | 5 | 1379 | - |
| (Loss) on disposal and provisions for loss on disposal of interests in associated undertakings | 5 | (2433) | - |
| **Loss on ordinary activities before interest** | | (15300) | (619) |
| Net interest receivable | 8 | 736 | 58 |
| **Loss on ordinary activities before taxation** | 9 | (14564) | (561) |
| Tax on loss on ordinary activities | 10 | (27) | (10) |
| **Loss on ordinary activities after taxation** | | (14591) | (571) |
| Equity minority interests | 25 | 37 | - |
| **Retained loss for the financial period** | | (14554) | (571) |
| **Loss per 1p ordinary share** | | | |
| basic and diluted | 12 | (14.9p) | (1.4p) |

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2000

| | | | |
|---|---|---|---|
| Loss for the financial period | | (14554) | (571) |
| Revaluation of fixed asset investments | 16 | 719 | - |
| **Total recognised gains and losses for the period** | | (13835) | (571) |

There are no differences between the results disclosed above and the historical cost equivalents.

## BALANCE SHEETS AT 31 DECEMBER 2000

| | Notes | Group 2000 £000 | Group 1999 £0000 | Company 2000 £000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Tangible assets | 13 | **1135** | 7 | **-** |
| Investments in subsidiary undertakings | 14 | **-** | - | **462** |
| Investments in associated undertakings | 15 | **4987** | 3166 | **-** |
| Other investments | 16 | **1568** | - | **-** |
| Investment in own shares | 17 | **2445** | - | **2445** |
| | | **10135** | 3173 | **2907** |
| **Current assets** | | | | |
| Debtors | 18 | **1609** | 441 | **11798** |
| Cash at bank and in hand | 19 | **9766** | 3647 | **9360** |
| | | **11375** | 4088 | **21158** |
| **Creditors : amounts falling due within one year** | 20 | **(586)** | (115) | **(37)** |
| **Net current assets** | | **10789** | 3973 | **21121** |
| **Total assets less current liabilities** | | **20924** | 7146 | **24028** |
| **Provisions for liabilities and charges** | 22 | **(385)** | - | **-** |
| **Net assets** | | **20539** | 7146 | **24028** |
| **Capital and reserves** | | | | |
| Called up share capital | 23 | **1233** | 876 | **1233** |
| Share premium account | 24 | **26442** | - | **26442** |
| Revaluation reserve | 24 | **719** | - | **-** |
| Other reserves | 24 | **6813** | 6813 | **-** |
| Profit and loss account (deficit) | 24 | **(14702)** | (543) | **(3647)** |
| **Total equity shareholders' funds** | | **20505** | 7146 | **24028** |
| **Equity minority interests** | 25 | **34** | - | **-** |
| **Capital employed** | | **20539** | 7146 | **24028** |

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2000

| | Group 2000 £000 | Group 1999 £0000 | Company 2000 £000 |
|---|---|---|---|
| Loss for the period | **(14554)** | (571) | **(3647)** |
| New share capital issued for cash | **26799** | 7689 | **27675** |
| Revaluation of fixed asset investments | **719** | - | **-** |
| Charge for issue of shares at below market value | **395** | 28 | **-** |
| **Net addition to shareholders' funds** | **13359** | 7146 | **24028** |
| Opening shareholders' funds | **7146** | - | **-** |
| **Closing shareholders' funds** | **20505** | 7146 | **24028** |

These financial statements were approved by the Board of Directors on 24 April 2001.

Signed on behalf of the Board
J.R. Judd
Director

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

| | Notes | Year ended 31 December 2000 £000 | Period from 3 June 1999 to 31 December 1999 £000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | 26 | (6260) | (624) |
| **Returns on investments and servicing of finance** | | | |
| Interest received (net) | | 723 | 17 |
| **Net cash inflow from returns on investments and servicing of finance** | | 723 | 17 |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | 13 | (1392) | (14) |
| Purchase of other investments | 16 | (849) | - |
| Purchase of own shares | 17 | (5322) | - |
| **Net cash outflow from capital expenditure and financial investment** | | (7563) | (14) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertaking | 14 | (550) | - |
| Cash acquired with subsidiary undertaking | | 550 | - |
| Purchase of investments in associated undertakings | 15 | (6800) | (1889) |
| Loans to associated undertakings | 15 | (780) | - |
| **Net cash outflow from acquisitions and disposals** | | (7580) | (1889) |
| **Net cash outflow before financing** | | (20680) | (2510) |
| **Financing** | | | |
| Issue of ordinary share capital | | 26799 | 6157 |
| **Net cash inflow from financing** | | 26799 | 6157 |
| **Increase in net cash for the period** | | 6119 | 3647 |

**Reconciliation of net cash flow to movement in net cash**

| | | |
|---|---|---|
| Net cash at beginning of period | 3647 | - |
| Increase in net cash in the period | 6119 | 3647 |
| **Net cash at end of period** | 9766 | 3647 |

## 1. Basis of preparation

Group reorganisation The Company (Brainspark Plc) was incorporated on 15 February 2000. On the 1 March 2000 the Company issued 8,762,000 10 pence ordinary shares (subsequently divided into 87,620,000 1 penny shares) pursuant to the acquisition of the entire share capital of Brainspark Associates Limited. The Company has applied merger relief in respect of this acquisition and accordingly no share premium was recorded relating to the issue of those shares.

Comparatives As the Company was formed during the year ended 31 December 2000 there are no Company comparative figures disclosed. On 6 March 2000 Brainspark Plc became the parent company of the Group formed by the merger of Brainspark Plc and Brainspark Associates Limited. Merger accounting principles have been used and the results have been presented as if the new Group had been established throughout the current and prior periods.

Principal accounting policies The financial statements have been prepared under the historical cost convention modified to include certain investments at valuation, and in accordance with applicable accounting standards. A summary of the more important Group accounting policies are set out below.

Consolidation The Group accounts include the financial statements of the Company and its subsidiary undertakings together with its equity share of associated undertakings.

Goodwill On the acquisition of a business, fair values are ascribed to the net assets acquired and where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as goodwill and capitalised as an asset within the balance sheet and amortised over its useful economic life which is estimated to be three years. Goodwill, being the excess of the fair value of consideration paid for associated undertakings over the fair value of their net assets at the date of acquisition, is capitalised and included together with the Group's share of the net assets in the investments in associated undertakings.

Turnover Turnover represents the invoiced amount, excluding Value Added Tax, of goods sold and services provided during the period.

Tangible fixed assets and depreciation Tangible fixed assets are stated at cost and depreciated on a straight line basis over their estimated useful lives. The rates of depreciation charged are as follows:
Leasehold improvements 20%
Office furniture and equipment 33%
Computer equipment 50%

Associated undertakings In the consolidated balance sheet the investments in associated undertakings are carried at share of net assets plus unamortised goodwill. Investments in associated undertakings are carried in the subsidiary's balance sheet at cost or valuation. Cost is based on the fair value of the consideration paid for the investment, including acquisition costs. Where a different value is demonstrated by a significant third party event the investment is carried at a corresponding revalued amount and in the case of a permanent impairment in the carrying value of the asset a write-down provision is made in the profit and loss account.

Investments Investments in subsidiary undertakings are carried at underlying net asset value which includes assets and liabilities at historic net book value and at revalued amounts. The revalued amounts relate to other investments and investments in associated undertakings held by the subsidiaries. Investments in unlisted companies are carried at cost or valuation. Investments in own shares are carried at cost less provision for any decrease in their market value.

Deferred taxation Deferred taxation is provided using the liability method on all timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future.

Operating lease rentals Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term.

Foreign exchange Transactions denominated in foreign currencies are translated into Sterling at the rate prevailing at the date of the transaction and foreign currency monetary assets and liabilities are retranslated at the balance sheet date rate of exchange.
These translation differences are dealt with in the profit and loss account.

Pension costs The pension costs charged to the profit and loss account in respect of the Group's defined contribution scheme represents employers contributions paid and accrued.

Costs of shares issued at below market value In accordance with Urgent Issues Taskforce Abstract 17, the Company recognises in its profit and loss account the amount by which the fair market value of shares issued to employees exceeds the consideration payable by the employee. These costs are being written off on a straight line basis over the period to which any performance criteria relates or where there are no performance criteria, immediately to the profit and loss account in the period.

Employee benefit trust In accordance with the Urgent Issues Taskforce Abstract 13, the liabilities, income and expenses of the employee benefit trust have been included in the consolidated financial statements of the Group and in the Company balance sheet.

Related party transactions The Company has taken advantage of the exemptions provided by FRS 8 not to disclose transactions between the Company and its subsidiaries.

## 2. Segmental analysis

The Group carries on its business in one geographical location namely the UK and has one principal activity which is the provision of incubation services to internet start up businesses.

| Activity | 2000 Turnover £000 | 2000 Operating (loss) £000 | 2000 Net assets £000 | 1999 Turnover £000 | 1999 Operating (loss) £000 | 1999 Net assets £000 |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Business incubation | - | (9698) | 16132 | - | (373) | 3980 |
| Share of associated undertakings (note 4) | 1239 | (4548) | 4407 | 83 | (246) | 3166 |
| Less share of associated undertakings | (1239) | - | - | (83) | - | - |
| | - | (14246) | 20539 | - | (619) | 7146 |

## 3. Net operating expenses

| | 2000 £000 | 1999 £000 |
|---|---|---|
| **Recurring** | | |
| Administrative expenses | 5644 | 373 |
| **Exceptional administrative expenses** | | |
| National Insurance on warrants | 1177 | - |
| Provision against investment in own shares (note 17) | 2877 | - |
| | 4054 | - |
| **Total administrative expenses** | 9698 | 373 |

## 4. Share of operating profit (loss) of associated undertakings

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Share of operating profit (loss) of associated undertakings | (2680) | (80) |
| Amortisation of goodwill on acquisition | (1868) | (166) |
| | (4548) | (246) |

## 5. Exceptional items

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Profit on deemed disposal of interests in associated undertakings | 1379 | - |
| Loss on disposal and provisions for loss on disposal of interests in associated undertakings | (2433) | - |

The profit on deemed disposal represents the net increase in the Group's share of the net assets of three associated undertakings, Leisurehub, Petspark and Easyart when they raised new capital from third parties. The Group did not acquire additional shares in these undertakings and as a result its shareholding was diluted. In accordance with FRS 9 the gain is treated as a profit arising on a deemed part disposal of the Group's investments and has been taken to the profit and loss account for the year. Metapack, which also raised additional share capital from third parties and the Group, has not been treated as an associated undertaking and accordingly no such gain has arisen in the consolidated profit and loss account.

The net loss on disposal of interests in associated undertakings comprises a £391,000 loss on the liquidation of Hobomedia, a £70,000 loss on the sale of shares in Perfectday to its founder and provisions for the loss on disposal of Brainspark's interests in Channel International, Propex and Petspark of £347,000, £673,000 and £952,000 respectively. None of the exceptional items resulted in any cash flows during the year and the consideration on the sale of the shares in Perfectday has been deferred until 2001 and is included in debtors. There are no immediate tax liabilities arising from any of the above exceptional items.

## 6. Employee information

| | 2000 Number | 1999 Number |
|---|---|---|
| **The average number of employees during the period were as follows:** | | |
| Incubation management and operations | 24 | 4 |

| | 2000 £000 | 1999 £000 |
|---|---|---|
| **Staff costs during the period including directors comprise:** | | |
| Wages and salaries | 1497 | 119 |
| Social security costs | 162 | 14 |
| Exceptional National Insurance on warrants (note 3) | 1177 | - |
| Other pension costs | 78 | 10 |
| | 2914 | 143 |

## 7. Director's remuneration

Details of directors' emoluments are shown within the Remuneration Committee's Report on pages 18 to 19.

## 8. Net interest receivable

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Bank deposits | 682 | 58 |
| Share of associated undertakings | 54 | - |
| | 736 | 58 |

## 9. Loss on ordinary activities before taxation

| | 2000 £000 | 1999 £000 |
|---|---|---|
| **Loss on ordinary activities before taxation is stated after charging:** | | |
| Depreciation of owned tangible fixed assets | 257 | 7 |
| Amortisation of goodwill re associated undertakings | 1868 | 166 |
| Goodwill written off on acquisition of subsidiary (note 28) | 71 | - |
| Operating lease rentals: | | |
| Land and buildings | 365 | - |
| Office equipment | 17 | - |
| | | |
| Auditors' remuneration: | | |
| Audit of parent undertaking | 3 | - |
| Audit of subsidiary undertakings | 86 | 5 |
| Non audit services [1] | 285 | 15 |
| Charge for shares issued below market value [2] | 395 | 28 |

[1] includes £207,000 of flotation costs charged against share premium
[2] represents costs of issuing shares to two original founders at below April flotation price

## 10. Tax on loss on ordinary activities

| | 2000 £000 | 1999 £000 |
|---|---|---|
| UK Corporation tax at 30% (1999-30%) | - | - |
| Deferred taxation | - | - |
| | - | - |
| Share of associated undertakings | 27 | 10 |
| | 27 | 10 |

The Group has no tax charge for the year due to losses incurred and has a potential deferred tax asset arising from the tax losses available for carry forward and relief against future taxable profits which has not been recognised in the financial statements in accordance with the Group's accounting policy for deferred tax. The share of associated undertakings tax relates to the Group's share of Fortune Cookie's corporation tax charge for the year.

## 11. Company profit and loss account

Of the £14,554,000 Group loss for the financial year a loss of £3,647,000 is dealt with in the accounts of Brainspark Plc. A profit and loss account for Brainspark Plc is not presented in accordance with the exemption allowed by Section 230 of the Companies Act 1985.

## 12. Loss per share

The loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. In calculating the weighted average number of shares in issue during the year it has been assumed that the number of shares in issue immediately after the Group reorganisation had been in issue since 22 September 1999, when substantially all the share capital of Brainspark Associates Limited was issued. For the period 3 June 1999 to 21 September 1999 it has been assumed that 200,000 shares were in issue, being the number of shares in the Company following the Group reorganisation. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares being those share options and warrants granted where the exercise price is less than the average market price of the Company's ordinary shares during the period. However these are not considered dilutive as their conversion to ordinary shares would reduce the net loss per share from continuing operations.

Reconciliations of the loss and weighted average number of shares used in the calculations are set out below:

| | 2000 (Loss) £000 | 2000 Weighted average no of shares 000's | 2000 Per share amount pence | 1999 (Loss) £000 | 1999 Weighted average no of shares 000's | 1999 Per share amount pence |
|---|---|---|---|---|---|---|
| **Basic loss per share** | | | | | | |
| Loss attributable to ordinary shareholders | (14554) | 97555 | (14.9) | (571) | 41890 | (1.4) |
| **Effect of dilutive shares** | | | | | | |
| Options | - | 8318 | - | - | - | - |
| **Diluted loss per share** | | | | | | |
| Adjusted loss | (14554) | 105873 | (14.9) | (571) | - | (1.4) |

## 13. Tangible fixed assets

| Group | Leasehold improvements £000 | Office furniture and equipment £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2000 | - | - | 14 | 14 |
| Additions | 349 | 401 | 642 | 1392 |
| Disposals | - | - | (9) | (9) |
| **At 31 December 2000** | **349** | **401** | **647** | **1397** |
| **Accumulated depreciation** | | | | |
| At 1 January 2000 | - | - | 7 | 7 |
| Charge for the year | 26 | 54 | 177 | 257 |
| Disposals | | | (2) | (2) |
| **At 31 December 2000** | **26** | **54** | **182** | **262** |
| **Net book amount** | | | | |
| **At 31 December 2000** | **323** | **347** | **465** | **1135** |
| At 31 December 1999 | - | - | 7 | 7 |

The Group does not hold any tangible fixed assets under finance leases.

## 14. Investments in subsidiary undertakings

| Company | £000 |
|---|---|
| Cost at 1 January 2000 | - |
| Additions | 1426 |
| Adjustments to carrying value (see analysis below) | (964) |
| **Valuation at 31 December 2000** | **462** |

During the year the Company acquired the entire issued share capital of Brainspark Associates Limited at a cost of £876,000 satisfied by the issue of shares and an 87% interest in EC1 Media Limited for a cash consideration of £550,000.

The Company's investments in Brainspark Associates Limited (BAL) and EC1 Media (EC1) are held at net asset value and accordingly the movements in the reserves of the Company's subsidiaries are reflected in the adjustments to the carrying value of the Company's investments in subsidiaries. These movements are made up as follows:

| | BAL £000 | EC1 £000 | Total £000 |
|---|---|---|---|
| Opening net assets within subsidiary undertaking | 7402 | | 7402 |
| Less: share capital issued for shares in subsidiary undertaking | (876) | - | (876) |
| Retained losses for the year | (10051) | (288) | (10339) |
| Issue of shares at below market value | 395 | - | 395 |
| Revaluation of investments | 2454 | - | 2454 |
| | **(676)** | **(288)** | **(964)** |

## 15. Investments in associated undertakings

| Group | Investments in associated undertakings £000 | Loans to associated undertakings £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2000 | 3422 | 86 | 3508 |
| Additions / loans granted | 6800 | 780 | 7580 |
| Loans capitalised [1] | 86 | (86) | - |
| Disposals | (4193) | (200) | (4393) |
| **At 31 December 2000** | **6115** | **580** | **6695** |
| **Share of net assets** | | | |
| At 1 January 2000 | 402 | - | 402 |
| Additions | 1912 | - | 1912 |
| Disposals | 44 | - | 44 |
| Share of profit(loss) for the year | (2653) | - | (2653) |
| Profit on deemed disposals | 1379 | - | 1379 |
| **At 31 December 2000** | **1084** | **-** | **1084** |
| **Goodwill** | | | |
| At 1 January 2000 | 2764 | - | 2764 |
| Arising on acquisition | 4975 | - | 4975 |
| Disposals | (2548) | - | (2548) |
| Amortisation of goodwill | (1868) | - | (1868) |
| **At 31 December 2000** | **3323** | **-** | **3323** |
| **Net book amount** | | | |
| **At 31 December 2000** | **4407** | **580** | **4987** |
| At 31 December 1999 | 3166 | - | 3166 |

1 A loan of £86,000 originally made to Petspark was capitalised within a new subscription for equity shares during the year.

## 15. Investments in associated undertakings (continued)

**Interests in associated undertakings**
The interests in associated undertakings at 31 December 2000 were as follows:

| Name | Number of shares held | % owned | Class of shares | Country of incorporation | Business activity |
|---|---|---|---|---|---|
| Channel | 200 | 20.0 | £1 A Ordinary | England | Recruitment services |
| Easyart | 26236 | 18.8 | 1p A Ordinary | England | Artwork supplies |
| Fortune Cookie | 50000 | 25.0 | .01p A Ordinary | England | Web development |
| Gasworld | 950000 | 33.0 | .01p A Ordinary | England | Industrial gas exchange |
| Globe-Rail | 30000 | 30.0 | 10p A Ordinary | England | Rail industry portal |
| Iprox | 4000 | 27.5 | .01p A Ordinary | England | Mobile phone location software |
| Kerb | 30167 | 25.0 | 1p A Ordinary | England | Web development |
| Leisurehub | 50000 | 13.1 | 0.5p A Ordinary | England | Leisure industry exchange |
| Petspark | 666700 | 14.8 | A Ordinary | England | Household pet portal |
| | 82424 | | A Preference | | |
| Propex | 1000000 | 25.0 | .01p A Ordinary | England | Commercial property exchange |
| Que Pasa | 200 | 40.0 | £1 A Ordinary | England | Media solutions agency |
| Smile-on | 36000 | 40.0 | .1p A Ordinary | England | B2B dentist website |
| TraderServe | 1250000 | 34.6 | £1 A Ordinary | England | Proprietary trading services |

The Group's share of the turnover and its share of the net assets of associated undertakings were as follows:

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Turnover | **1239** | 83 |
| Fixed assets | **177** | 55 |
| Current assets | **1602** | 559 |
| Liabilities due within one year | **690** | 212 |
| Liabilities due after one year | **5** | - |

## 16. Other investments

| Group | £000 |
|---|---|
| **Cost or Valuation** | |
| At 1 January 2000 | - |
| Additions | 849 |
| Revaluation | 719 |
| **At 31 December 2000** | **1568** |

Other investments comprise a 7.4% investment in the ordinary share capital of Metapack Limited which was revalued in April 2000 by £719,000 on receipt of third party second round financing.

## 17. Investment in own shares

| Company and Group | £000 |
|---|---|
| **Cost** | |
| At 1 January 2000 | - |
| Additions | 5322 |
| Provision against investment | (2877) |
| **At 31 December 2000** | **2445** |

At the time of the flotation a loan of £5.3 million was made to an Employee Benefit Trust, which invested the proceeds wholly in Company shares. The trust was established to cover actual and potential national insurance liabilities arising on the exercise of warrants held by employees and partner company managers at the time of the flotation. This arrangement is treated as an investment in own shares. A full discussion is presented in the flotation prospectus. The provision arises from the reduction in the company's share price from 125p at flotation to a bid price of 58.0p at 31 December 2000. The investment in own shares represents 4,236,329 ordinary shares with a nominal value of £42,363 and a bid market value of £2,445,000 net of brokers commission at the 31 December 2000. Subsequent to the year end the bid price has fallen to 9.0p at 31 March and hence the market value of these shares has fallen by a further £2,066,000. This would have the effect of increasing the required provision against the investment to £4,943,000.

## 18. Debtors

| | **Group 2000 £000** | Group 1999 £000 | **Company 2000 £000** |
|---|---|---|---|
| **Amounts falling due within one year** | | | |
| Amounts owed by subsidiary undertakings | - | - | 11794 |
| Amounts owed by associated undertakings | 331 | 104 | - |
| Other debtors | 1018 | 244 | - |
| Prepayments and accrued income | 260 | 93 | 4 |
| | 1609 | 441 | 11798 |

## 19. Cash at bank in hand

| | **Group 2000 £000** | Group 1999 £000 | **Company 2000 £000** |
|---|---|---|---|
| Bank deposits | 9760 | 3647 | 9360 |
| Bank current accounts | 6 | - | - |
| | 9766 | 3647 | 9360 |

## 20. Creditors: amounts falling due within one year

| | **Group 2000 £000** | Group 1999 £000 | **Company 2000 £000** |
|---|---|---|---|
| Trade creditors | **159** | 8 | **-** |
| Other taxes and social security costs | **73** | 57 | **-** |
| Other creditors | **-** | 3 | **-** |
| Accruals | **354** | 47 | **37** |
| | **586** | 115 | **37** |

## 21. Financial instruments

The Group's financial instruments comprise cash,trade debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to provide finance for the Group's future investments and day to day operational needs. The Group does not enter into any derivative transactions such as interest rate swaps or forward foreign exchange contracts as the Group does not have any significant foreign currency transactions nor does it have any borrowings. The main risks faced by the Group are therefore limited to interest rate risk on surplus cash deposits and liquidity risk associated with raising sufficient funding to meet the operational needs of the business. The Board reviews and agrees policies for managing these risks and they are summarised below:

**Interest rate risk** Surplus cash funds arising from the flotation process are deposited with highly credit rated third party banks and the interest rates earned and security of these balances are monitored on a regular basis against competing financial institutions products.

**Liquidity risk** Adequate cash resources currently exist to meet the day to day working capital requirements of the Group and the securing of additional sources of funding is an ongoing process.

**Interest rate risk of financial assets** The composition of the Group's financial assets are set out below:

| Group | **2000 £000** | 1999 £000 |
|---|---|---|
| Sterling deposits | **9760** | 3647 |
| Cash at bank and in hand | **6** | - |
| | **9766** | 3647 |

The above Sterling cash deposits earn a floating rate of interest based on LIBID and these rates have ranged during the year between 3.0% and 6.4% (1999 - 4.2% to 5.8%).The remaining bank account balances have earned a floating rate of interest during the year based on bank premium account rates of between 2.3% and 2.7% (1999- 1.4% to 2.6%). All of these cash balances are recoverable within one year. All of the Group's debtors due within one year are excluded from the above table as they are of a short term nature and do not meet the definition of a financial asset.

**Interest rate risk of financial liabilities** The Group have no formal overdraft or loan facilities with bankers given the size of the surplus cash balances and the Group's creditors falling due within one year are of a short term nature and do not meet the definition of a financial liability.

**Fair values of financial assets** At 31 December 2000 and 31 December 1999 there was no difference between the book value and fair value of the financial assets.

**Foreign currency exposures** At 31 December 2000 the Group had no exposure to foreign currency movements (1999- £85,930 equivalent in US dollars which was unhedged).

## 22. Provisions for liabilities and charges

| Group | £000 |
|---|---|
| At 1 January 2000 | - |
| Charged to profit and loss account | 385 |
| **At 31 December 2000** | **385** |

The above provision represents a potential liability to pay Employers National Insurance on the exercise of share warrants issued to employees of £365,000 and a provision for dilapidations on the Lightwell property lease of £20,000.

## 23. Called up share capital

| Group and Company | 2000 £000 | 1999 £000 |
|---|---|---|
| **Authorised** | | |
| 15,000 Ordinary shares of 10p each | | 1 |
| 185,000,000 Ordinary shares of 1p each (see below for details) | 1850 | |

| Allotted, called up and fully paid | £000 |
|---|---|
| **At 1 January 2000** | |
| 6,514,000 'A' ordinary shares of 10p each in Brainspark Associates Limited | 651 |
| 2,248,000 'B' ordinary shares of 10p each in Brainspark Associates Limited | 225 |
| | 876 |
| Issue of shares during the year in Brainspark Plc (see below for details) | 357 |
| **At 31 December 2000 - 123,257,905 1p ordinary shares in Brainspark Plc** | **1233** |

The Group comparative figures shown above relate to the share capital of Brainspark Associates Limited (BAL) at 31 December 1999.

The Company was incorporated on 15 February 2000 with an authorised share capital of £1,000, comprising 1,000 ordinary shares of £1 each, of which one ordinary share was issued to the subscriber to the memorandum of association. On 1 March 2000 these authorised ordinary shares of £1 each were subdivided into 10 ordinary shares of 10p each.

On 1 March 2000, the authorised share capital of the Company was increased to £1,500,000 by the creation of 14,990,000 ordinary shares of 10 p each to be designated as 'A', 'B' and 'C' ordinary shares ranking pari passu for the purpose of voting and dividends. On 20 March these shares were sub-divided by ten into 1p shares and the authorised share capital of the Company was increased by £350,000 to £1,850,000, divided into 185,000,000 ordinary shares by the creation of 35,000,000 new ordinary shares.

On 1 March 2000, 6,514,000 'A' ordinary 10p shares and 2,248,000 'B' ordinary 10p shares were issued pursuant to the acquisition of the entire issued share capital of BAL. In addition on the same date 1,000 new shares in the capital of the Company were issued for each 'A' ordinary share held in BAL and designated as 'A' ordinary shares and 1,000 new shares were issued for each 'B' ordinary share held in BAL and designated as 'B' ordinary shares.

On 3 March 2000, the Company issued 1,079,700 C ordinary shares to new investors and members of the Advisory Board for a consideration of £6.1m.

By a special resolution passed by the Company on 20 March 2000, each of the A, B and C 10p ordinary shares were sub-divided into 10 1p ordinary shares.

As part of the flotation process, on 6 April 2000 partner company managers holding 8,270,000 warrants to acquire Brainspark Limited 'B' ordinary shares exercised their warrants and were issued with the same number of 1p ordinary shares in Brainspark Plc. In addition on the same day one of the Brainspark founders N. Freedman was issued with 188,154 1p ordinary shares in Brainspark Plc on exercise of his warrants. A further 120,000 1p ordinary shares in Brainspark Plc were issued to SchroderSalomonSmithBarney as part of its commission income for placing the new share issue.

On the 7 April flotation a further 16,000,000 ordinary shares were issued raising £18.4 million net of costs.

On 24 August 2000, 175131 ordinary shares were issued to Egon Zehnder in payment for recruitment services provided to the Company.

## 23. Called up share capital (continued)

**Share warrants and options**

The following share warrants and options were outstanding at 31 December 2000:

| | Exercise price range (pence) | Number of shares | Exercise period |
|---|---|---|---|
| Series A warrants | 9.53 | 3131846 | 01/03/2001 - 01/01/2003 |
| Series B warrants | 57.10 | 11478000 | 01/03/2001 - 01/01/2003 |
| Other warrants | 125.00 | 650000 | 30/06/2001 - 30/06/2010 |
| Executive share options - approved scheme | 91.50 - 110.50 | 257829 | 15/06/2003 - 13/10/2013 |
| Executive share options - unapproved scheme [1] | 91.50 - 125.00 | 926979 | 03/04/2001 - 13/10/2013 |
| Lyric Trust | 44.23 | 1846242 | see below |
| SchroderSalomonSmithBarney | 150.00 | 100000 | see below |
| **Total outstanding** | | **18390896** | |

The Series A and B warrants were issued by the Company as part of the reorganisation on March 1 2000 pursuant to the acquisition of the entire share capital of Brainspark Associates Limited.

The other warrants were issued on 30 June 2000 at the flotation price to a director who had committed to join the Company prior to the flotation but did not commence work until a later date. The Executive share options were granted in accordance with the rules of the 2000 Executive Share Option Scheme adopted by the Company on 9 March 2000. Over any ten year period, the total number of shares which may be issued under the Executive Scheme cannot exceed 5% of the issued share capital of the Company.

Lyric Trust, a trust connected with the landlord of the Lightwell property, was granted warrants over ordinary shares prior to flotation which were exercisable from the date of completion on the Lightwell lease agreement and expire on 15 April 2005.

As part of its commission earned on the placing of 16 million Brainspark Plc shares, SchroderSalomonSmithBarney was granted warrants with an exercise price at a 20% premium to the placement price. These warrants are exercisable anytime after 7 April 2002.

[1] 50% of these options are exercisable one year from the date of grant and the remaining 50% exercisable two years from the date of grant.

## 24. Reserves

| Group | Share premium £000 | Revaluation reserve £000 | Other reserves £000 | Profit and loss account £000 |
|---|---|---|---|---|
| At 1 January 2000 | - | - | 6813 | (543) |
| Issues of shares | 26442 | - | - | - |
| Revaluation of investments (note 16) | - | 719 | - | - |
| Issue of shares at below market value | - | - | - | 395 |
| Retained loss for the year | - | - | - | (14554) |
| **At 31 December 2000** | **26442** | **719** | **6813** | **(14702)** |

| Company | Share premium £000 | Revaluation reserve £000 | Other reserves £000 | Profit and loss account £000 |
|---|---|---|---|---|
| At 1 January 2000 | - | - | - | - |
| Issues of shares | 26442 | - | - | - |
| Retained loss for the year | - | - | - | (3647) |
| **At 31 December 2000** | **26442** | **-** | **-** | **(3647)** |

Other reserves represents a merger relief reserve arising on the acquisition by the Company of the entire share capital of Brainspark Associates Limited. The share premium account includes flotation costs written off on the issue of shares of £1,427,000.

## 25. Equity minority interests

The minority interest comprises a 13% interest in the Company's subsidiary EC1 Media Limited which incurred losses of £288,000 during the year and had net assets of £262,000 at 31 December 2000.

## 26. Reconciliation of operating loss to net cash outflow from operating activities

| Group | 2000<br>£000 | 1999<br>£000 |
|---|---|---|
| Operating loss | (9698) | (373) |
| Depreciation charge | 257 | 7 |
| Goodwill written off on acquisition of subsidiary undertaking | 71 | - |
| Provision against investment in own shares | 2877 | - |
| Loss on disposal of fixed assets | 7 | - |
| (Increase) in debtors | (1025) | (401) |
| Increase in creditors | 471 | 115 |
| Charge for issue of shares at below market value | 395 | 28 |
| Increase in provisions | 385 | - |
| **Net cash outflow** | (6260) | (624) |

## 27. Analysis of changes in net funds

| Group | At 1 Jan<br>2000 | Cash flow | At 31 Dec<br>2000 |
|---|---|---|---|
| Cash at bank and in hand | 3647 | 6119 | 9766 |

## 28. Acquisition of subsidiary undertaking

During the year the Company purchased 87% of the ordinary share capital of EC1 Media on incorporation for a consideration of £550,000 including goodwill of £71,000. This business was established within Brainspark Associates Limited and incorporated as a subsidiary. As a result no cash outflow from the Group has arisen during the year and the goodwill acquired has been written off in full to the profit and loss account.

## 29. Pension commitments

Brainspark operates a defined contribution Group Personal Pension Scheme to provide retirement benefits for the majority of its employees. The Group pension cost for the year which equates to the employer contributions made to the scheme of 7.5% of employee salaries was £78,000 (1999 - £10,000).

## 30. Operating lease commitments

Operating lease rentals payable during the next year are as follows:

| | Land and buildings | | Office equipment | |
|---|---|---|---|---|
| Group | 2000<br>£000 | 1999<br>£000 | 2000<br>£000 | 1999<br>£000 |
| **Commitments expiring** | | | | |
| Within one year | 145 | - | - | - |
| Between two and five years | - | - | 19 | - |
| After five years | 489 | - | - | - |
| | 634 | - | 19 | - |

## 31. Capital commitments

The Group had no capital commitments at 31 December 2000 (1999- nil).

## 32. Related party transactions

Brainspark Associates Limited provided accommodation and management services to its associated undertakings and investments during the year and these services were provided free of charge to partner companies which have not yet reached second round financing but recharged at cost to those who have secured such new funding. The amounts recharged during the year for these services was £180,000 and the amounts due from partner companies at 31 December 2000 included in debtors were £208,000 inclusive of VAT (see note 18).

In addition to the above Brainspark Associates Limited recharged the cost of utilities and IT equipment incurred on behalf of partner companies and the total amounts recharged during the year were £228,000 and the amounts due from partner companies at 31 December 2000 included in debtors were £123,000 inclusive of VAT (see note 18).

During the year £780,000 of loans convertible to equity were made to associated undertakings and the amounts outstanding at 31 December 2000 were £580,000 which are included in the investments in associated undertakings (see note 15). £200,000 of loans made to associated undertakings during the year were written off on disposal of the investments in these companies, being £120,000 in respect of Hobomedia and £80,000 for Perfectday.

## 33. Post balance sheet events

On 26 February 2001 £300,000 was invested in a new associated undertaking, The Usability Company which provides research and consultancy solutions to the owners and managers of websites on improving their sites human interactivity.

## PRINCIPAL SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

| Name | Country of incorporation | % owned | Nature of business |
|---|---|---|---|
| **Subsidiaries** | | | |
| Brainspark Associates Limited | England | 100 | Internet incubation |
| EC1 Media Limited* | England | 87 | Digital media consultancy |
| **Associated undertakings** | | | |
| Petspark* | England | 15 | Household pet portal |
| Easyart* | England | 19 | Artwork supplies |
| Leisurehub | England | 13 | Leisure industry marketplace |
| Fortune Cookie* | England | 25 | Web development agency |
| Smile-On* | England | 40 | B2B dentist portal |
| Iprox* | England | 28 | Mobile phone location software |
| Kerb* | England | 25 | Web development agency |
| Globe-Rail* | England | 30 | Rail industry portal |
| Gasworld* | England | 33 | Industrial gas marketplace |
| Que Pasa* | England | 40 | Media solutions agency |
| TraderServe* | England | 35 | Proprietary trading services |
| Propex* | England | 25 | Commercial property marketplace |
| Channel* | England | 20 | Recruitment services |

Subsidiaries and associated undertakings marked * are audited by firms other than PricewaterhouseCoopers.

# SHAREHOLDER INFORMATION

**Analysis of ordinary shareholders at 31 December 2000**

| Size of holding | Holding 000's | % of total shares |
|---|---|---|
| 0 - 25,000 | 558 | 0.45 |
| 25,001 - 50,000 | 312 | 0.25 |
| 50,001 - 100,000 | 853 | 0.69 |
| 100,001 - 200,000 | 929 | 0.75 |
| 200,001 - 500,000 | 5108 | 4.14 |
| 500,001 - 1,000,000 | 4703 | 3.82 |
| 1,000,001 - 2,000,000 | 5432 | 4.41 |
| 2,000,001 - 5,000,000 | 22538 | 18.29 |
| 5,000,001 - 10,000,000 | 6517 | 5.29 |
| 10,000,001 and over | 76308 | 61.91 |
| Totals | **123258** | **100.00** |

| Shareholder | Holding 000's | % of total shares |
|---|---|---|
| Nominees | 78037 | 63.3 |
| Investment companies | 17472 | 14.1 |
| Investment trusts | 2779 | 2.2 |
| Investment funds | 1672 | 1.4 |
| Pension funds | 4844 | 3.9 |
| Insurance companies | 4751 | 3.9 |
| Unit trusts | 2224 | 1.8 |
| Private individuals | 11479 | 9.4 |
| Totals | **123258** | **100.0** |

## Market makers

**SchroderSalomonSmithBarney** Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB.
**Winterflood Securities** Walbrook House, 23/29 Walbrook, London EC4N 8LA.
**Peel Hunt Plc** 62 Threadneedle Street, London EC2R 8HP.

## Registrars

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