Brainspark

Annual Report and Accounts 2001

BRAINSPARK PLC
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Brainspark

Annual Report and Financial statements
for the year ended *31 December 2001*

Contents

COMPANY INFORMATION

Directors	Francesco Gardin, Chairman Alberto Agosta, CEO Sheryl Daniels-Young, Non-Executive Director Don R. Caldwell, Non-Executive Director David Meacher, Non-Executive Director
Secretary	James D. S. Gordon
Company number	3926192
Registered office	The Lightwell 12 – 16 Laystall Street Clerkenwell London EC1R 4PF
Auditors	PricewaterhouseCoopers 9 Greyfriars Road Reading RG1 1JG
Solicitors	Gordons 22 Great James Street London WC1N 3ES
Nominated Adviser	John East & Partners Limited Crystal Gate 28-30 Worship Street London EC2A 2AH
Brokers	Seymour Pierce Limited 29/30 Cornhill London EC3V 3NF
Registrar	Capita IRG Plc The Warrant House High Street Altrincham Cheshire WA14 1PZ

Brainspark

CHAIRMAN'S STATEMENT

I am pleased to present my report for the year ended 31st December 2001.

The results represented a loss of £12.9 million and have been heavily influenced by the negative sentiment affecting the technology investment market as a whole and early stage companies in particular. The uncertainty surrounding the markets in general added to this difficulty. Furthermore, the tragic events of 11 September have had a significant effect on world markets since that date and Brainspark has not been immune to this. There is no evidence at present of an imminent improvement in this sentiment.

Therefore, the Board has agreed several changes within Brainspark to navigate through this continuing hostile environment, whilst pursuing, at the same time, a cost reduction policy.

Whereas Internet incubation can no longer represent a viable business model, the new Board of Brainspark has acknowledged the current market situation and is in the process of adopting a strategy of sharp departure from the sole incubator approach - focusing on additional lines of revenues, ranging from IT portfolio management, private placements, mergers and acquisitions, fund raising through advanced financial instruments, and so on.

I was appointed Chairman in February 2002 following the offer by AlSoftw@re S.p.A. which resulted in it holding 65.5% of the Company's issued share capital.

As the present Chairman, I will describe the period covered by the financial statements and give a brief outline of the subsequent first quarter of 2002.

Summary Financial Results

The Group cash reserves at 31 December 2001 stood at £5.6 million and the Company's net asset value (NAV) at 31 December 2001 was £7.0 million compared with £24.0 million at 31 December 2000. This negative movement in NAV is disappointing. This was mainly due to the losses realised on the sale and winding down of a number of portfolio companies.

Market Environment

The underlying reason for this result has been the dramatic turn for the worse in capital market sentiment towards our investment arena during the whole of 2001. The businesses in which the Company invested seed capital last year and the year before have not been able to achieve follow-on funding and related valuation gains as originally planned.

Operational Changes

In response to these market conditions, the Board modified 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 has remained our approach but in the current market the cost base should be further reduced. The previous Board adopted a programme that reduced our operating cash requirement during the whole year – reducing our operating cash requirement to below £200,000 per month.
These actions reduced the negative impact operating expenses on our NAV. The present Board is focussed on further reducing the monthly cash requirement during 2002 to a minimum.

Board Changes

In keeping with the market and the operational changes, the Board was restructured on 28 February 2001. This restructuring was designed to align the skills and experience of the Board with Brainspark's modified operation and the specific challenges facing the Company. Following the offer by AlSoftw@re S.p.A., the Board structure was modified to better represent the new shareholding structure. I considered that the Board would benefit from having additional experience available in order to better assist young companies through difficult market conditions. In this respect, the individuals appointed to the present Board are – in my opinion – best able to support the business both in Europe and the United States of America.

CHAIRMAN'S STATEMENT

Brainspark Evolution

At the outset, Brainspark was conceived to build a role in the initial stages of financing new business ideas. It would find, develop and then exit through trade sales or flotation a number of businesses relatively swiftly. The consequence of the current negative market conditions is that Brainspark has invested in fewer businesses and for a longer period than originally envisaged. As a result, some of our businesses were beyond the point where extensive hands-on support was making the difference between success and failure. Adding these factors together, we were at a stage of market development and our own portfolio development where Brainspark had to evolve its business model. While on the one hand, we had to significantly reduce the Brainspark headcount during 2001 – retaining just two employees by March 2002 – on the other hand, new sources of revenues, consistent with the Company's and new Board's know-how had to be identified. This process is currently ongoing, but the first areas of intervention have already been identified, which include, among others: IT portfolio management, private placements, mergers and acquisitions, fund raising through advanced financial instruments, and so on.

At the same time, an important asset acquisition is under evaluation, which would involve some key investments of Infusion S.p.A, the AlSoftw@re 99.9% controlled investment vehicle, transferring to Brainspark, to create a portfolio covering a geographic area ranging from UK, to Italy and Israel.

Investments Review

To date, Brainspark has invested in eighteen projects. Seventeen investments were made during 2000 and one in 2001. At the beginning of 2001, our portfolio comprised a broad range of businesses including exchanges, Web service businesses and application service providers. As the follow-on funding environment became tougher, we have had a longer-term view in our initial selection criteria and also our decisions on whether or not to continue supporting businesses that were not attracting new third party funding. This has been the case for the last few months and it will certainly continue. Some of our businesses have not made the progress that was originally envisaged. We announced the closure or sale of ten companies at the end of 2001. We have also made provisions in the year end accounts for the losses on disposal of our interests in certain other portfolio businesses. The aggregate impact of these activities has been a £6.0 million reduction in the value of the Company's portfolio.

In May 2002, following the takeover of Brainspark, the Board announced it had entered into negotiations with Infusion S.p.A. - an Italian incubator owning eight minority holdings in advanced technology companies - with a view to the acquisition of certain of Infusion's trade and assets. A further announcement will be made in due course.

Prospects

We face the future with optimism – especially if the transaction between Brainspark and Infusion takes place. We still have to consider certain issues going forward – externally market conditions and internally further rationalising the portfolio taking into consideration the opportunities that are presented by these companies.

I believe that the Board has now approved the necessary steps to enable the financial performance of Brainspark to improve – especially when market sentiment in the technology sector improves. If and when the acquisition of Infusion is completed, we will have a number of interesting businesses operating in technologically advanced sectors. A few companies are already prepared for the public sale of shares when the market conditions are more favourable than now.

Prof. Francesco Gardin
Chairman
27 June 2002

DIRECTORS

Don Caldwell A R

Non-Executive Director

Was appointed 28 February 2001 and is Chairman and Chief Executive Officer of Cross Atlantic Capital Partners which manages two funds which are significant Brainspark shareholders. 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 USA and Chairman of Crucible Corporation, a seed fund based in Ireland. Age 54.

David Meacher A I R

Non-Executive Director

Was appointed 5 February 2002. He has over fifteen years of experience in international investment banking and strategic consultancy. He is a partner of City Capital Corporation Limited, a UK based boutique investment bank that focuses on corporate finance and capital markets for UK and continental European corporates. He also acts as a non-executive board member of StockAcademy Limited, one of the investee companies of Infusion S.p.A. - the financial accelerator and 100% subsidiary of AlSoftw@re S.p.A. In 1999, David Meacher led the Initial Public Offering of AlSoftw@re S.p.A, the parent company of Brainspark. Age 38.

Sheryl Daniels-Young I

Non-Executive Director

Was appointed 30 October 1999. She is a Managing Director in the UK office of Cross Atlantic Capital Partners which manages two funds which are significant Brainspark shareholders. She is also a 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 45.

DIRECTORS

Francesco Gardin I

Chairman of Board

Was appointed 5 February 2002. Holds a degree in Theoretical Physics from Padova University in 1979. Since 1984, he has been Associate Professor at Udine, Milano and Siena University lecturing in Artificial Intelligence, Man-Machine Interaction and related topics. His academic writing includes more than 50 individual and joint publications. In 1983, Francesco Gardin founded AISoftw@re S.p.A and acted as CEO since. Francesco Gardin is now CEO and Chairman of AISoftw@re S.p.A which went public on NASDAQ Europe in 1999 and the Milan Stock Exchange in 2000. AISoftw@re S.p.A currently employees 460 people and has revenues for 2001 in excess of 26 million euros. Age 47.

Alberto Agosta A R

Chief Executive Officer

Was appointed 5 February 2002 and he is Board Vice President of AISoftw@re, the holding company of Brainspark, and Managing Director of Infusion S.p.A., the financial accelerator of AISoftw@re S.p.A. He is Director in other AISoftw@re Group companies both in Europe and in USA. He is also a member of Brainspark Audit and Remuneration Committee. Prior to joining AISoftw@re S.p.A, he held various senior executives positions in several information technology companies. Age 57.

FORMER DIRECTORS

Barbara Thomas A I N R

Non-Executive Chairman

(until 28 February 2001), then non-executive director (until 19 October 2001 when she resigned).

Stewart Dodd I N

Chief Executive Officer

*(resigned 5 February 2002)**

Noah Freedman I

Chief Technical Officer

*(resigned 5 February 2002)**

Jasper Judd

Chief Financial Officer and Company Secretary

*(resigned 5 February 2002)**

Paul Corley A I N R

Senior Independent Non-Executive Chairman

*(resigned 5 February 2002)**

Andrew Hawkins

Non-Executive Director

*(resigned 5 February 2002)**

A.F. Welch I

Chief Operating Officer

(resigned 28 February 2001)

M.J. Harford I

Chief Financial Officer

(resigned 28 February 2001)

M.G. Fiennes I

Non-Executive

(resigned 2 April 2001)

** Resigned following Offer by AISoftw@re S.p.A.*

Key

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

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

Principal Activity

The principal activity of the Group is the provision of incubation services to internet start up businesses by providing entrepreneurs with support services needed to help them manage the early stage of commercial evolution from idea conception to established business.

Review of business

The year saw the closure of ten of Brainspark's investee companies and many of the Group's other investments failed to meet expectations, partly as a result of the general downturn in the technology sector.
As a result, the profit and loss for the Group has been charged a total of £2.8 million arising from losses on disposals and impairment charges.

These disappointments gave rise to the decision of the Board at that time to recommend an offer for the Company by AISoftw@re S.p.A. in December 2001.

Directors

The present members of the Board of Directors together with brief biographies are shown on pages 3 and 4 . The former members of the Board who served during the year are shown on page 5.

On 5 February 2002, certain of the Company's executive directors resigned together with certain of the non-executive directors. Full details of the resignations are shown on page 5. On the same day, the following directors appointments were made - Professor Francesco Gardin, Alberto Agosta and David Meacher.

No director during the period had a material interest in any contract of significance to the Company or any of its subsidiaries and as at 31 December 2001, 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 as shown below.

The Company maintained insurance during the year 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' REPORT

Directors' interests

The directors' had the following interests in the ordinary share capital of the Company at 31 December 2001 and at 1 January 2001, or if later, the date of appointment.

Beneficial holdings

	Number of shares	
Executive Directors	31 December 2001	31 December 2000
S. M. Dodd	16,306,290	16,306,290
N. Freedman	3,423,420	3,423,420
J. R. A. Judd	95,317	-
Non - Executive Directors		
S. Daniels - Young	-	-
A. Hawkins	52,540	52,540
P. J. Corley	-	-
D. R. Caldwell	-	-

Directors' interests in options to acquire ordinary shares at 31 December 2001 are shown in the Remuneration Committee report on page 9.

None of the new directors listed above, or any appointed on 5 February 2002, have any interests in the ordinary share capital of the Company at 31 May 2002.

The market price of the ordinary shares at 31 December 2001 was 4.0p and the highest and lowest mid price during the year were 132.5p and 3.75p respectively.

DIRECTORS' REPORT

Substantial shareholder interests

As at 31 May 2002, substantial interests of 3% or more 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
AlSoftw@re S.p.A.	80,740,294	65.51
Cross Atlantic Technology Fund, LP	33,916,050	27.52

Corporate Governance

Details of the Company's corporate governance policy and its compliance with the principles of the Combined Code are shown from pages 12 to 15.

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 2001 was 59 days (2000: 23 days).

Charitable and political contributions

There were no charitable or political donations made during the year (2000: nil).

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

James Gordon

James D. S. Gordon
Company Secretary

27 June 2002

REMUNERATION COMMITTEE'S REPORT

Until the changes in Board composition on 5 February 2002, the Remuneration Committee of the Board "the Committee" comprised of the non-executive directors of the Company, B. S. Thomas (non-executive director until 19 October 2001, P. J. Corley (senior independent non-executive director), A. Hawkins, D. R. Caldwell 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 serving during the year had service contracts with the Company. These contracts were not of fixed length but required six months' notice of termination by the Company or the executive, with the exception of A. F. Welch, whose contract required three months' notice by either party. All the non-executive directors had service contracts which are not fixed in length but can be terminated with a notice period of three months by the Company or the non-executive director.

Remuneration received by each director during the year was as follows

Executive directors	Salary & fees £'000	Benefits £'000	Compensation Payments £'000	2001 Total £'000	2000 Total £'000	2001 Pensions £'000	2000 Pensions £'000
S. M. Dodd (resigned 5 February 2002)	119	-	81	200	130	9	5
N. Freedman (resigned 5 February 2002)	90	1	58	149	99	7	8
A. F. Welch (resigned 28 February 2001)	33	-	50	83	110	2	8
M. J. Harford (resigned 28 February 2001)	26	-	70	96	64	2	4
J. R. A. Judd (appointed 28 February 2001, resigned 5 February 2002)	88	-	58	146	-	4	-
Non-executive directors							
B. S. Thomas (resigned 19 October 2001)	26	-	-	26	42	-	-
S. Daniels-Young(appointed 30 October 1999) [1]	4	-	-	4	11	-	-
M. G. Fiennes (resigned 2 April 2001)	3	-	-	3	11	-	-
P. J. Corley (resigned 5 February 2002)	19	-	-	19	3	-	-
D. R. Caldwell (appointed 28 February 2001)[1]	44	-	-	44	-	-	-
A. Hawkins (appointed 28 February 2001, resigned 5 February 2002)	18	-	-	18	-	-	-
Total	470	1	317	788	470	24	25

[1] *The amounts relate to travel expense reimbursement incurred on behalf of Brainspark.*

There were no bonuses paid to directors during the year. The pension contribution is taken as the schemes normal cost multiplied by pensionable salary.

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 dependants.

Directors' interests in share options and warrants

At 31 December 2001, 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.

Series A warrants	Date of grant	Earliest exercise date	Expiry date	Exercise price pence	Number at 1 January 2001	Number granted in year	Number Exercised in year	Number at 31 December 2001
N. Freedman	1-Mar-00	1-Mar-01	1-Mar-03	9.53	1,111,846	-	-	1,111,846
Series B warrants								
S. M. Dodd	1-Mar-00	1-Mar-01	1-Mar-03	57.10	1,650,000	-	-	1,650,000
N. Freedman	1-Mar-00	1-Mar-01	1-Mar-03	57.10	500,000	-	-	500,000
Executive share options								
J. R. A. Judd	11-Apr-01	28-Feb-02	11-Apr-11	25.00	-	1,232,579	-	1,232,579

Don Caldwell
Chairman of the Remuneration Committee

27 June 2002

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.

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

Throughout the year the directors believe the company had complied with the provisions of the Combined Code throughout the period, except in relation to other matters referred to below.

Subsequently, the company has substantially scaled down its operations and reduced the size of the Board and the management team. Since this substantial scaling down of its operations the directors believe it is impracticable to comply with the full provision of the Code. However, it is the directors' intention that as the company regrows its' operations appropriate Corporate Governance measures will be reintroduced in order to move towards full compliance with the Code.

Board of Directors

During the year, 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.

The composition of the Board during the year is shown on pages 3, 4 and 5, as are subsequent changes to the composition and size of the Board.

Two of the 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 was however, commonplace, in the business start-up industry and the existing board structure still ensures an appropriate balance of management responsibilities and decision-making authorities.

The Board is responsible for the overall management of the Group and met during the year at least once a month. The Board received 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 had 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 were delegated to Board Committees, details of which are provided below.

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

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

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

Board Committees

During the year, the Board had delegated responsibilities to its committees which had fixed terms of reference. The main committees established were the Investment, Audit, Remuneration and Nominations Committees and further details given below.

Investment Committee

The Investment Committee met whenever significant investment matters arose which are not dealt with in the normal course of Board business and comprises most of the Company's directors. The Committee considered new business proposals received by the Company and evaluated the business plans, negotiated investment terms and where appropriate made investment recommendations to the Board.

Audit Committee

The Audit Committee met three times during the year. The Committee was 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 reviewed the interim and annual financial statements and received reports from the external auditors on internal controls and accounting issues before they are submitted to the Board for approval. The Committee also monitored the effectiveness of the external audit process and set the remuneration of the auditors.

Remuneration Committee

The Remuneration Committee met three times during the year. The Committee was 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 had access to independent remuneration consultants and in framing its remuneration policy had given full consideration to the provisions of Section 1B and Schedule A to the Combined Code.

The Remuneration Committee's Report is set out from page 9 to 11.

Nominations Committee

The Nominations Committee met once during the year. The Committee comprised the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Senior Independent Non-Executive Director and was 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.

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.

Post year end changes in Corporate Governance

The combination of the very significant scaling down of the operations of the Company, the reductions in the size of the Board and the management team has necessitated a reduction in compliance with the Combined Code.

Since 5 February 2002, the Board now comprises two executive and three non-executive directors. As noted above, S. Daniels-Young is deemed to be non-independent. D. Caldwell is also deemed to be non-independent.

The Board meets monthly, covering the issues identified above.

There have been no Audit, Nomination or Remuneration Committees during the period. The Investment Committee met four times.

The Board confirms that it will reassess its compliance with the Combined Code in the event of any significant transactions which would result in a substantial expansion of the Company.

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.

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.

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements the directors are required to:

a) Select suitable accounting policies and then apply them consistently (with the exception of the adoption of new accounting standards as set out in Note 1)

b) Make judgements and estimates that are reasonable and prudent

c) State whether applicable and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of 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' had in place throughout the year 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 included 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 was made and the control procedures implemented as soon as possible.

The Group's risk management policy had 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 confirmed that it had reviewed the effectiveness of the Group's systems of internal control in this period and that these procedures met the requirements of the Combined Code throughout the year.

The Board acknowledged 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 operated throughout 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 Group's 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.

The Board had 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.

The scaling down of the operations of the Company referred to above has also resulted in a change to the internal controls procedures since the year end. In particular

i. a six monthly risk management review has not been carried out

ii. greater emphasis is placed on monitoring controls, supported by a system for the authorisation of all significant transactions including non-routine expenditure items.

The board confirms that it has considered the effectiveness of its current system of controls in the light of its' substantially scaled down operations. The board also confirms that it will reassess the internal controls required as it starts to regrow its operations.

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.

Brainspark

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, and the related notes.

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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and, United Kingdom auditing standards issued by the Auditing Practices Board.

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 information specified by law egarding 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 chairman's statement, the directors' report, the Remuneration Committee's report and the corporate governance statement.

We review, at the request of the directors, whether the corporate governance statement 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 judgements 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 2001 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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Reading

27 June 2002

Brainspark

PARTNER COMPANIES

PARTNER COMPANIES

Smile-on
An independent B2B website for dental professionals
www.smile-on.com

Fortune Cookie
Interactive agency offering strategy, design and development in web and wireless technologies
www.fortune-cookie.com

The Usability Company
The UK leader in Customer Experience Management products and services
www.theusabilitycompany.com

Kerb
Producing high quality, funky, cutting edge internet sites, CD ROM and web-based games for clients
www.kerb.co.uk

PARTNER COMPANIES

TraderServer
Application service provider targeted at professional traders
www.traderserver.com

Metapack
Provides logistics and fulfilment services to European e-commerce businesses
www.metapack.com

Propex
The B2B market place for the commercial property investment professionals
www.propex.co.uk

EasyArt
Art images online and special custom framing visualisation software
www.easyart.com

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Turnover	2	-	-
Net operating expenses - recurring	3	(4,149)	(5,644)
Net operating expenses - exceptional	3	(3,550)	(4,054)
Total net operating expenses/group operating loss - continuing		(7,699)	(9,698)
Share of operating loss of associated undertakings	4	(5,329)	(4,548)
Total operating loss: group and share of associated undertakings		(13,028)	(14,246)
Exceptional items			
Profit on deemed disposal of interests in associated undertakings	5	421	1,379
Loss on disposal, liquidation and provisions for loss on disposal of interests in associated undertakings	5	(223)	(2,433)
Loss on ordinary activities before interest and taxation		(12,830)	(15,300)
Net interest receivable	8	396	736
Amounts written off investments	16	(499)	-
Loss on ordinary activities before taxation	9	(12,933)	(14,564)
Tax on loss on ordinary activities	10	-	(27)
Loss on ordinary activities after taxation		(12,933)	(14,591)
Equity minority interests	25	34	37
Loss for the financial year		(12,899)	(14,554)
Loss per 1p ordinary share			
Basic and diluted	12	(10.5p)	(14.9p)

The loss for the year is derived wholly from continuing activities.

FINANCIAL
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CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2001

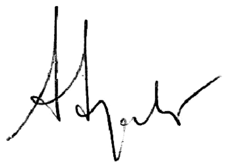
	Notes	2001 £'000	2000 £'000
Loss for the financial year	24	(12,899)	(14,554)
(Impairment)/Revaluation of fixed asset investments	16	(719)	719
Total recognised gains and losses for the year		(13,618)	(13,835)

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

BALANCE SHEET
AT 31 DECEMBER 2001

	Notes	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Tangible assets	13	616	1,135	-	-
Investments in subsidiary undertakings	14	-	-	50	462
Investments in associated undertakings	15	250	4,987	-	-
Other investments	16	350	1,568	-	-
Investment in own shares	17	147	2,445	147	2,445
		1,363	10,135	197	2,907
Current Assets					
Debtors	18	981	1,609	1,469	11,798
Cash at bank in hand	19	5,553	9,766	5,391	9,360
		6,534	11,375	6,860	21,158
Creditors: amounts falling due within one year	20	(762)	(586)	(50)	(37)
Net current assets		5,772	10,789	6,810	21,121
Total assets less current liabilities		7,135	20,924	7,007	24,028
Provisions for liabilities and charges	22	(122)	(385)	-	-
Net assets		7,013	20,539	7,007	24,028
Capital and reserves					
Called up share capital	23	1,233	1,233	1,233	1,233
Share premium account	24	26,442	26,442	26,442	26,442
Revaluation reserve	24	-	719	-	-
Other reserves	24	6,813	6,813	-	-
Profit and loss account (deficit)	24	(27,475)	(14,702)	(20,668)	(3,647)
Total equity shareholders' funds		7,013	20,505	7,007	24,028
Equity minority interests	25	-	34	-	-
Capital employed		7,013	20,539	7,007	24,028

These financial statements were approved by the Board of Directors on 27 June 2002.
Signed on behalf of the Board



Alberto Agosta
Chief Executive Officer

FINANCIAL STATEMENTS

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Loss for the year	24	(12,899)	(14,554)	(17,021)	(3,647)
New share capital issued for cash		-	26,799	-	27,675
(Impairment)/Revaluation of fixed asset investments		(719)	719	-	-
Charge for issue of shares at below market value		126	395	-	-
Net (reduction)/additions to shareholders' funds		(13,492)	13,359	(17,021)	24,028
Opening shareholders' funds		20,505	7,146	24,028	-
Closing shareholders' funds		7,013	20,505	7,007	24,028

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Net cash outflow from operating activities	26	(3,696)	(6,260)
Returns on investments and servicing of finance			
Interest received (net)		381	723
Net cash inflow from returns on investments and servicing of finance		381	723
Capital expenditure and financial investment			
Purchase of tangible fixed assets	13	(61)	(1,392)
Receipts from sale of tangible fixed assets		13	-
Purchase of other investments		-	(849)
Purchase of own shares		-	(5,322)
Net cash outflow from capital expenditure and financial investment		(48)	(7,563)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(550)
Cash acquired with subsidiary undertaking		-	550
Purchase of investments in associated undertakings		(385)	(6,800)
Loans to associated undertakings	15	(465)	(780)
Net cash outflow from acquisitions and disposals		(850)	(7,580)
Net cash outflow before financing		(4,213)	(20,680)
Financing			
Issue of ordinary share capital		-	26,799
Net cash inflow from financing		-	26,799
(Decrease)/Increase in net cash for the year		(4,213)	6,119
Reconciliation of cash flow to movement in net cash			
Net cash at beginning of period		9,766	3,647
(Decrease)/Increase in net cash in the year		(4,213)	6,119
Net cash at the end of year		5,553	9,766

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

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.

Adoption of new accounting standards

FRS 17, 'Retirement Benefits', and FRS 18 ' Accounting Policies', have been adopted in this year's financial statements. FRS 17 requires only disclosure and the adoption of FRS 18 has not resulted in any material change to the existing accounting policies.

Consolidation

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

Group reorganisation

In the previous year the Company issued ordinary 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.

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.

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 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 correspondingly 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.

Operating lease rentals

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

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 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	2001 Turnover £'000	2001 Operating (loss) £'000	2001 Net assets £'000	2000 Turnover £'000	2000 Operating (loss) £'000	2000 Net assets £'000
Continuing Operations						
Business incubation	-	(7,699)	6,763	-	(9,698)	16,132
Share of associated underkings (note 4)	708	(5,329)	250	1,239	(4,548)	4,407
Less share of associated undertakings	(708)	-	-	(1,239)	-	-
	-	(13,028)	7,013	-	(14,246)	20,539

3 Net operating expenses

	2001 £'000	2000 £'000
Recurring		
Administrative expenses	4,149	5,644
Exceptional administrative expenses		
National Insurance on options	(243)	1,177
Redundancy costs	850	-
Amounts written off and provisions against loans to associated undertakings	645	-
Provision against investment in own shares (note17)	2,298	2,877
Total administrative expenses	7,699	9,698

4 Share of operating profit (loss) of associated undertakings

	2001 £'000	2000 £'000
Share of operating profit loss of associated undertakings	(1,407)	(2,680)
Amortisation of goodwill on acquisition	(2,507)	(1,868)
Impairment of goodwill	(1,415)	-
	(5,329)	(4,548)

5 Exceptional items

	2001 £'000	2000 £'000
Profit on deemed disposal of interests in associated undertakings	421	1,379
Loss on disposal, liquidation and provisions for loss on disposal of interests in associated undertakings	(223)	(2,433)

The profit on deemed disposal represents the net increase in the Group's shares of the net assets of associated undertakings 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.

The net loss on disposal of interests in associated undertakings comprises an additional loss over the provisional figures reported in the previous year, on the sale of shares in Perfectday amounting to £223,000.

6 Employee information

	2001 Number	2000 Number
The average number of employees during the period were as follows:		
Incubation management and operations	19	24

	2001 £'000	2000 £'000
Staff costs during the period including directors comprise:		
Wages and salaries	1,083	1,497
Social security costs	131	162
Exceptional provisions/(release) of National Insurance on share options (note 3)	(243)	1,177
Other pension costs	90	78
	1,062	2,914

7 Directors' remuneration

Details of the directors' emoluments are shown within the Remuneration Committee's Report on pages 9 to 11.

8 Net interest receivable

	2001 £'000	2000 £'000
Bank deposits	381	682
Share of associated undertakings	15	54
	396	736

9 Loss on ordinary activities before taxation

	2001 £'000	2000 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	467	257
Amortisation of goodwill re associated undertakings	2,507	1,868
Charges for impariment of goodwill re associated undertakings	1,415	-
Goodwill written off on acquisition of subsidiary	-	71
Operating lease rentals:		
Land and buildings	489	365
Office equipment	19	17
Auditors' remuneration:		
Audit of parent undertaking	3	3
Audit of subsidiary undertakings	45	86
Non audit services [1]	13	285
Charge for shares issued below market value	126	395

[1] *2000 includes £207,000 of flotation costs charged against share premium*

10 Tax on loss on ordinary activities

	2001 £'000	2000 £'000
	-	-
Share of associated undertakings	-	27
	-	27

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.

11 Company profit and loss account

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. The parent Company's loss for the financial year amounted to £17,021,000 (2000: £3,647,000).

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. 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 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.

Reconciliation of the loss and weighted average number of shares used in the calculation are set out below:

	(Loss) £'000	2001 Weighted avarage no of shares £'000	Per share Amount pence	(Loss) £'000	2000 Weighted avarage no of shares £'000	Per share Amount pence
Basic loss per share Loss attributable to ordinary shareholders	(12,899)	123,258	(10.5)	(14,554)	97,555	(14.9)
Effect of dilutive shares Options	-	18,390	-	-	8,318	-
Diluted loss per share Adjusted loss	(12,899)	141,648	(10.5)	(14,554)	105,873	(14.9)

13 Tangible fixed assets

Group	Leasehold Improvements £'000	Office furniture and equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation				
At 1 January 2001	349	401	647	1,397
Additions	41	-	20	61
Disposals	(102)	-	(48)	(150)
At 31 December 2001	288	401	619	1,308
Accumulated depreciation				
At January 2001	26	54	182	262
Charge for the year	73	180	214	467
Disposals	(16)	-	(21)	(37)
At 31 December 2001	83	234	375	692
Net book amount				
At 31 December 2001	205	167	244	616
At 31 December 2000	323	347	465	1,135

The Group does not hold any tangible fixed assets under hire purchase or finance lease agreements.

The depreciation charge for the year includes an additional impairment charge against office furniture and equipment amounting to £100,000.

14 Investment in subsidiary undertakings

Company	Shares £'000
Cost	
At 1 January 2001	1,426
Additions	50
At 31 December 2001	1,476
Provisions	
At January 2001	964
Adjustments to carrying value	462
At 31 December 2001	1,426
Net book amount	
At 31 December 2001	50
At 31 December 2000	462

The Company's investments in its subsidiaries 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.

The Company's subsidiary undertakings at 31 December 2001 were as follows:

	Country of incorporation	% owned	Nature of Business
Subsidiaries			
Brainspark Associates Limited	England	100	Internet incubation
EC1 Media Limited	England	87	Dissolved by voluntary striking off on 5 March 2002.
Brainspark Private Equity Limited	England	100	Not trading
Brainspark Services Limited	England	100	Not trading

15 Investments in associated undertakings

Group	Investments in associated undertakings £'000	Loans to associated undertakings £'000	Total £'000
Share of net assets			
At 1 January 2001	1,084	-	1,084
Additions	126	-	126
Disposals	(26)	-	(26)
Share of loss for the year	(1,407)	-	(1,407)
Profit on deemed disposals	421	-	421
At 31 December 2001	198	-	198
Goodwill			
At 1 January 2001	3,323	-	3,323
Arising on acquisition	659	-	659
Other adjustments	(8)	-	(8)
Impairment of goodwill	(1,415)	-	(1,415)
Amortisation of goodwill	(2,507)	-	(2,507)
At 31 December 2001	52	-	52
Costs			
At 1 January 2001	-	580	580
Loans granted	-	465	465
Loans capitalised [1]	-	(400)	(400)
Disposals on liquidation	-	(345)	(345)
At 31 December 2001	-	300	300
Provisions			
At 1 January 2001	-	-	-
Provided in year	-	(300)	(300)
At 31 December 2001	-	(300)	(300)
Net book amount			
At 31 December 2001	250	-	250
At 31 December 2000	4,407	580	4,987

[1] *Loans capitalised of £400,000 comprises loans made to Smile-On were capitalised within a new subscription for equity shares during the year.*

Name	Number of shares held	% owned	Class of shares	Country of incorporation	Business Activity
Easyart	26,236	20.9	1p A Ordinary	England	Artwork supplies
Fortune Cookie	50,000	25.0	.01p A Ordinary	England	Web development
Gasworld	950,000	33.0	.01p A Ordinary	England	Industrial gas exchange
Globe-Rail	3,000	30.0	10p A Ordinary	England	Rail industry portal
Iprox	4,000	27.5	.01p A Ordinary	England	Ceased trading (formerly mobile phone location software)
Kerb	30,167	25.0	1p A Ordinary	England	Web development
Que Pasa	200	40.0	£1 A Ordinary	England	In liquidation (formerly Media solutions agency)
Smile-on	12,600,000	41.2	1p A Ordinary	England	B2B dentist website
Trader-Serve	1,250,000	34.6	£1 A Ordinary	England	Proprietary trading services
Usability	330,000	30.0	1p A Preference	England	Website research and consultancy

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

	2001 £'000	2000 £'000
Turnover	708	1,239
Fixed assets	84	177
Current assets	386	1,602
Liabilities due within one year	262	690
Liabilities due after one year	10	5

16 Other investments

Group	£'000
Valuation	
At 1 January 2001	1,568
Net deficit on revaluation	(1,218)
At 31 December 2001	350

Other investments comprise an 8.2% investment in the ordinary share capital of Metapack Limited together with the Company's 25% and 14.8% holdings in Propex and Petspark Limited, both of which have been reclassified from investments in associated undertakings in the year at nil book value. The net deficit on revaluation in the year relates to Metapack. Of the total net deficit of £1,218,000, £719,000 has been charged to revaluation reserve with the remainder of £499,000 being charged to the profit and loss account. The remaining value relates solely to Metapack.

The historical cost for other investments is £4,208,000, including the original cost for the investments in Propex and Petspark Limited (2000: £849,000).

17 Investment in own shares

Company and Group	£'000
Cost or valuation	
At 1 January 2001	2,445
Previsions against investment	(2,298)
At 31 December 2001	147

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. The provision arises from the reduction in the Company's share price from 125p at flotation to a bid price of 3.5 p at 31 December 2001 (2000: 58 p). The investment in own shares represents 4,236,329 ordinary shares with a nominal value of £42,363 and a bid market value of £147,000 (2000: £2,445,000) net of broker's commission at the 31 December 2001. After the year end, the Employee Benefit Trust accepted the cash offer of 4.25p per share from AISoftw@re S.p.A.

18 Debtors

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	-	-	1,469	11,794
Amounts owed by associated undertakings	39	331	-	-
Other debtors	710	1,018	-	-
Prepayments and accrued income	232	260	-	4
	981	1,609	1,469	11,798

19 Cash at bank in hand

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Bank deposits	5,503	9,760	5,391	9,360
Bank current accounts	50	6	-	-
	5,553	9,766	5,391	9,360

20 Creditors: amounts falling due within one year

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Trade creditors	243	159	-	-
Other taxes and social security costs	43	73	-	-
Other creditors	25	-	-	-
Accruals	451	354	50	37
	762	586	50	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 overleaf:

Interest rate risk

Surplus cash funds arising from the flotation process in 2000 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 is set out below:

Group	2001 £'000	2000 £'000
Sterling deposits	5,503	9,760
Cash at bank and in hand	50	6
	5,553	9,766

The Sterling cash deposits earn a floating rate of interest based on LIBID and these rates have ranged during the year between 3.73% and 5.94% net of fees (2000: 3% and 6.4%). The remaining bank account balances have earned a floating gross rate of interest during the year based on bank premium account rates of between 0.85% and 2.6% (2000: 2.3% and 2.7%) based on average balances. 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 has 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 2001 and 31 December 2000 there was no difference between the book value and fair value of the financial assets.

Foreign currency exposures

At 31 December 2001 and 31 December 2000 the Group had no exposure to foreign currency movements.

22 Provision for liabilities and charges

Group	NIC on share options £'000	Onerous property lease £'000	Total £'000
At 1 January 2001	365	20	385
Released to profit and loss account	(243)	-	(243)
Utilised	-	(20)	(20)
At 31 December 2001	122	-	122

23 Called up share capital

Group and Company	2001 £'000	2000 £'000
Authorised		
185,000,000 Ordinary shares of 1p each	1,850	1,850

Group and Company	2001 £'000	2000 £'000
Allocated, called up and fully paid		
123,257,905 Ordinary shares of 1p each	1,233	1,233

Share warrants and options

The following share warrants and options were outstanding at 31 December 2001:

Group	Exercise price range (pence)	Number of Shares	Exercise period
Series A warrants	9.53	3,131,846	Lapsed
Series B warrants	57.10	11,478,000	Lapsed
Other warrants	125.00	650,000	Lapsed
Executive share options - approved scheme	25 - 110.5	60,000	Lapsed
Executive share options - unapproved scheme	25	1,232,579	Lapsed
Lyric Trust	44.23	1,846,242	Lapsed
SchroderSalomonSmithBarney	150.00	100,000	23/03/2002 - 23/03/2004
Total outstanding		18,498,667	

After the year end, as a result of the offer by AISoftw@re S.p.A. and/or the relevant option holder ceasing to be employed by the Group, all of the above options and warrants have lapsed, with the exception of the warrants held by SchroderSalomonSmithBarney.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

24 Reserves

Group	Share premium £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2001	26,442	719	6,813	(14,702)
Revaluation of investments (note 16)	-	(719)	-	-
Issue of shares at below market value	-	-	-	126
Retained loss for year	-	-	-	(12,899)
At 31 December 2001	26,442	-	6,813	(27,475)
Company				
At 1 January 2001	26,442	-	-	(3,647)
Retained loss for year	-	-	-	(17,021)
At 31 December 2001	26,442	-	-	(20,668)

Other reserves represents a merger reserve arising on the acquisition by the Company of the entire share capital of Brainspark Associates Limited.

25 Equity minority interests

The minority interest comprises a 13% interest in the Company's subsidiary EC1 Media Limited. The subsidiary incurred a loss of £262,000 for the year and was dissolved on 5 March 2002. It has no net assets.

26 Reconciliation of opering loss to net cash outflow form operating activities

Group	2001 £'000	2000 £'000
Operating loss	(7,699)	(9,698)
Depreciation charge	467	257
Goodwill written off on acquisition of subsidiary undertaking	-	71
Provisions against loans to associated undertakings	645	-
Provision against investment in own shares	2,298	2,877
Loss on disposal of fixed assets	100	7
Decrease / (increase) in debtors	383	(1,025)
Increase in creditors	247	471
Charge for issue of share options at below market value	126	395
(Release of) / increase in provisions	(263)	385
Net cash outflow from operating activities	(3,696)	(6,260)

27 Analysis of changes in net funds

Group	At 1 January 2001 £'000	Cash flow £'000	At 31 December 2001 £'000
Cash at bank and in hand	9,766	4,213	5,553

28 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 £90,000 (2000: £78,000).

29 Operating lease commitments

Operating lease rentals payable during the next year are as follow:	Land and buildings		Office equipment	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Commitments expiring				
Within one year	-	145	-	-
Between two and five years	-	-	19	-
After five years	489	489	-	19
	489	634	19	19

30 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 £14,000 (2000: £180,000) and the amounts due from partner companies at 31 December 2001 included in debtors were £nil (2000: £208,000).

In addition to the above Brainspark Associates Limited recharged the cost of utilities and IT equipment incurred on behalf of investee companies and the total amounts recharged during the year was £322,000 (2000: £379,000) and the amounts due from investee companies at 31 December 2001 included in debtors was £39,000 (2000: £274,000) inclusive of VAT.

During the year £465,000 (2000: £780,000) of loans were made to associated undertakings and the amounts outstanding at 31 December 2001 were £300,000 before provisions which are included in the investments in associated undertakings (see note 15). £345,000 (2000: £200,000) of loans made to associated undertakings during the year were written off on closure of these companies.

31 Ultimate parent company

The immediate and ultimate parent company and controlling party from 1 March 2002 is AISoftw@re S.p.A., a company registred in Italy. Copies of the ultimate parent company's consolidated financial statements can be obtained from Camera di Commercio di Milano, Via Meravigli 11/b, 20123 Milan, Italy.

Notice is hereby given that the 2002 Annual General Meeting of Brainspark plc will be convened at The Lightwell, Laystall Street, London EC1R 4PF on 24 July 2002 at 4 pm to transact the following business and consider and, if thought fit, pass the following resolutions, each such resolution to be considered as an ordinary resolution or special resolution as indicated.

Resolutions 1 and 2 will be considered as ordinary business. The remaining resolutions will be considered as special business.

ORDINARY RESOLUTIONS

1 To receive the report and accounts of the Company for the year ended 31 December 2001.

2 To reappoint Messrs. PricewaterhouseCoopers as auditors and authorise the Directors to fix their remuneration.

3 To re-elect Donald Caldwell as a Director.

4 To re-elect Francesco Gardin as a Director.

5 To re-elect Alberto Agosta as a Director.

6 To re-elect David Meacher as a Director.

7 To increase the authorised share capital of the Company from £1,850,000 divided into 185,000,000 shares of 1 penny each ("Shares") to £5,000,000 by the creation of 315,000,000 additional Shares.

8 To authorise the Directors generally and unconditionally and in accordance with section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to the aggregate nominal amount of the Company's authorised share capital. Such authority will expire on the date of the annual general meeting of the Company to be held in 2003 unless the allotment of relevant securities is made in pursuance of an offer or agreement entered into prior to such date.

SPECIAL RESOLUTIONS

9 To empower the Directors pursuant Section 95 of the Act to allot equity securities of the Company (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred under Resolution 3 above as if section 89(1) of the Act did not apply to any such allotment.

By order of the Board

James Gordon

James Gordon
Company Secretary

Registered Office
The Lightwell, 12-16 Laystall Street, London EC1R 4PF
27 June 2002

NOTICE OF 2002
ANNUAL GENERAL MEETING

Notes

1 Proxies

Any member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member.

2 Register of Directors' share interests and contracts of service

The register of interests of Directors maintained by the Company under ss324ff of the Companies Act 1985 and all Directors' contracts of service having more than one year's unexpired term are available for inspection by members at the Company's registered office during business hours and will be available for inspection at the location of the meeting for the period commencing 15 minutes prior to the commencement of the meeting and ending at the conclusion of the meeting.