Brainspark

Annual Report and Accounts 2002

Annual Report and Financial statements for the year ended 31 December 2002

Brainspark Plc

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Company information

Directors	Francesco Gardin, Chairman Alberto Agosta, CEO Sheryl Daniels-Young, Non-Executive Director (resigned 10 April 2003) Don R. Caldwell, Non-Executive Director David Meacher, Non-Executive Director Edward Burman, Non-Executive Director
Secretary	James D. S. Gordon
Company number	3926192
Registered office	The Lightwell 12 – 16 Laystall Street Clerkenwell London EC1R 4PF
Auditors	Mazars 19 Goldington Road Bedford MK40 3JY
Solicitors	Gordons 22 Great James Street London WC1N 3ES
Nominated Adviser	Evolution Beeson Gregory Limited The Registry Royal Mint Court London EC3N 4LB
Nominated Brokers	Evolution Beeson Gregory Limited The Registry Royal Mint Court London EC3N 4LB
Registrar	Capita IRG Plc The Warrant House High Street Altrincham Cheshire WA14 1PZ

CHAIRMAN'S STATEMENT

I am pleased to present the Company report for the year ended 31 December 2002.

The results show a loss in the year of £3.1 million compared to a loss of £12.9 million in the year to 31 December 2001. The results have been heavily influenced by two factors:

- the current negative market conditions affecting, in particular, the technology investment market;
- provisions of £970.000 in relation to the surrender of the Company's lease of premises at The Lightwell, the most important liability of the Company.

As far as the first point is concerned, there is no evidence at present of an imminent upturn in this trend during the first half of 2003, although some early signals could indicate a return of confidence for the beginning of 2004. I will comment in detail on the second point later in this statement.

The Board during the year has agreed several changes within Brainspark to navigate through this continuing hostile environment, whilst pursuing, at the same time, the programme outlined in the statement issued with Brainspark's interim financial statement for the period ended 30 June 2002.

In that interim statement, I explained the actions the Company had taken to overcome the described situation as follows:

- reducing significantly Brainspark expenses in general and retaining just two employees from March 2002 and one employee from February 2003;
- evaluating asset acquisition, in order to create a portfolio covering a geographic area ranging from UK, to Italy and Israel; and
- evolving Brainspark's business model, from the sole incubator approach through new sources of revenues: IT portfolio management, assist companies for private placements and fund raising through advanced financial instruments.

The first point was implemented as scheduled bringing down the monthly cash burn rate to under £76k per month in the second half 2002 from £88.5k per month in the first half 2002 and from £147k per month in the second half 2001; the second point is in progress.

As far as the acquisition of assets is concerned, in October 2002 Brainspark acquired five assets of Infusion S.p.A. - an Italian investment vehicle 99.9% owned by AISoftw@re S.p.A. - for approximately £5.05 million which was satisfied in a mixture of cash and Brainspark shares.

Finally on the last point Brainspark has provided capital for the following portfolio companies: EasyArt and Metapack and provided a convertible loan to Smile-on. All the portfolio companies in business at the beginning of 2002 were still in business at the end of 2002.

I will describe the period covered by the financial statements and give a brief outline of the subsequent first quarter of 2003.

Summary Financial Results

The Group cash reserves at 31 December 2002 stood at £964,000 compared with £5.6 million at 31 December 2001.

The Company's net asset value (NAV) was £6.7 million compared with £7.0 million at 31 December 2001.

CHAIRMAN'S STATEMENT

Market Environment

The underlying factor influencing these results has been the continuing downturn in capital market sentiment towards the technology investment arena during 2002. As a result of this negative sentiment towards the technology sector the businesses in which the Company invested seed capital have not been able to achieve follow-on funding and related valuation gains as originally planned.

During the year, Brainspark had to sustain some of its portfolio investments with cash injections through capital increases and loans.

Operational Changes

In response to these market conditions, the Board continuously monitored 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 level and the range of the services and the related cost base has had to be further reduced. The Board adopted programmes that reduced our operating cash requirement during the whole year – reducing our operating cash requirement to below £65,000 per month. These actions reduced the negative impact of operating expenses on our NAV. The Board continues to be focused on further reducing the monthly cash requirement during 2003 to a minimum.

Board Changes

Edward Burman was appointed as an additional independent non-executive director on 7 November 2002. I considered that the Board would benefit from having additional experience available in order better to assist young companies through difficult market conditions.

Sheryl Daniels Young tendered her resignation on 10 April 2003, after the year end. Sheryl has made an invaluable contribution to the Company and I was sorry that her other personal commitments meant that she felt that she could no longer act as a Director. We wish her well.

Business Process

Following the Infusion transaction, Brainspark continues to rationalise its operational infrastructure and leverage the knowledge and market potential of the whole investment portfolio.

This is a modification of the Company's original strategy and is a consequence of the current difficult market conditions.

At the outset, Brainspark's strategy was to take a role in the initial stages of financing new business ideas. It would find and, develop businesses and then look to exit through relatively quickly through a trade sales or flotation.

As the market environment changed, Brainspark had to evolve its business model. We reduced the Brainspark headcount during 2002 – retaining just two employees from March 2002 and we identified new and alternative sources of revenues. We have already made progress identifying these new sources of revenue which include IT portfolio management and fund raising through specialised financial instruments and private placements.

Chairman's statement

Investments Review

After the closure or sale of ten companies during 2001, Brainspark had investments in eight projects at the beginning of 2002. That portfolio was across a range of businesses sectors including Web service and application service providers. We took the decision not to continue supporting businesses that were not attracting new third party funding and we feel that this was the prudent and correct approach to take. Unless market sentiment improves dramatically this will probably continue to be our strategy. Most of the companies in which Brainspark has invested have not made progress as originally envisaged and are concentrating on improving their businesses over a longer time frame. EasyArt and The Usability Company should achieve operating profits in 2003.

As stated above, in October 2002, Brainspark PLC announced that it has acquired a number of portfolio investments in advanced technology companies held by Infusion S.p.A. the incubator of AISoftw@re S.p.A. - the controlling shareholder of both Brainspark and Infusion. The transaction was a related party transaction for the purposes of the AIM Rules.

Under the terms of the acquisition agreement between Brainspark and Infusion, Brainspark acquired five portfolio investments previously held by Infusion for a consideration of £5.05 million. The consideration was satisfied by the issue of 64,147,004 Brainspark shares issued at 4.25p each to Infusion plus the payment of £2.32 million in cash.

The portfolio of investments acquired from Infusion is made up of:

Advanced Computer Systems (ACS)
ACS is a private Italian company founded in 1979. ACS develops software and advanced technology solutions in the field of Earth observation, large digital archives and virtual reality. Brainspark holds approximately 16.2 per cent of the issued share capital of ACS.

GeoSim
GeoSim is a joint stock company incorporated in Israel in 1995. GeoSim creates 3-D models of actual cities and special areas of interest (such as security). GeoSim has proprietary technology for automation of the production process of 3-D models as a product derived from satellite, aerial and ground images. Under the terms of the agreement with Infusion, Brainspark agreed to invest a further US$1.5 million in GeoSim, which increased its interest in GeoSim to its current level of 45.65 per cent of the share capital of that company.

Impression
Impression is a joint stock company incorporated in Italy in February 2000. Impression is involved in quantitative and qualitative measurement of web site traffic. Impression has developed a software programme called "Web Knowler", a tool enabling in-depth analysis and providing an immediate evaluation of web site profitability and of the marketing and promotional activities. Brainspark holds 20 per cent of the issued share capital of Impression.

Ludonet
Ludonet is a joint stock company incorporated in Italy in 1995. Ludonet is involved in the online "edutainment" business, developing and managing innovative solutions to online games, virtual communities and e-learning. Brainspark holds 35 per cent of the issued share capital of Ludonet.

San Vicente Group (SVG)
San Vicente Group was founded in 2000 in the USA and is a venture capital fund focused on technology companies. Brainspark holds approximately 1.3 per cent of the issued share capital of SVG. In January 2003, SVG filed Chapter 11 bankruptcy protection. The purpose is to aid SVG to protect its assets and return greater funds or proceeds to shareholders and creditors.

Chairman's statement

Prospects

We face the future with guarded optimism. We still have to consider certain issues going forward – the impact of external market conditions and internally, further rationalising the portfolio taking into consideration the opportunities that are presented by these companies.

One of the most important issues was resolved on 13 June 2003, when Brainspark surrendered its lease of premises at The Lightwell, Laystall Street, London EC1R 4PA to its landlord, Laystall House Limited. The existing lease was at an annual rent of £534,000 equivalent to about £28 per square foot. The deposit held by the landlord was forfeited and a reverse premium of £330,000 was paid to the landlord.

Laystall House Limited has granted the Company a new lease of two floors at The Lightwell at an annual rent of £170,000, equivalent to about £22 per square foot. The new lease is terminable by the Company after three years.

The six companies in which Brainspark has an investment, who occupy office space as short-term licensees of the Company, remain unaffected by the above transaction.

The Company hopes to recover the rent payable to the landlord in full from the investee companies and/or others. I believe that this represents an ultimately positive conclusion.

In addition, I think that the Board has now approved the necessary steps to enable the financial performance of Brainspark to improve. A change in market sentiment towards the technology sector will clearly provide further support to the business.

We will have a number of interesting businesses operating in technologically advanced sectors. A few companies are already potential candidates an exit as and when market conditions improve.

Prof. Francesco Gardin
Chairman
23 June 2003

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 US and Chairman of Crucible Corporation, a seed fund based in Ireland. Age 57.

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 mid-sized UK and continental European corporates. In 1999, David Meacher led the Initial Public Offering of AISoftw@re S.p.A., the parent company of Brainspark. Age 39.

Francesco Gardin (I)
Chairman of Board
Was appointed on 5 February 2002, resigned on 28 October 2002 and re-appointed 14 November 2002. Holds a degree in Theoretical Physics at 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 AISofwt@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 employs 460 people and has revenues for 2002 in excess of 28 million euros. Age 48.

Alberto Agosta (A, R)
Chief Executive Officer
Was appointed 5 February 2002 and he is Board Vice President of AISoftw@re S.p.A., 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. Prior to joining AISoftw@re S.p.A. he held various senior executives positions in several information technology companies. Age 58.

Edward Burman(I)
Non-Executive Director
Was appointed on 7 November 2002 . He is director of Ambrosetti Stern Stewart Italy and is responsible for the E-Services area which provides consulting programs on the use of Internet for e-commerce and e-business. He is Professor of the new e-business course in the Economics division at the University of Bologna. Between 1994 and 2000 he lectured at the Canterbury Business School of the University of Kent. Currently he is a lecturer at Henley Management College (UK). Age 55.

FORMER DIRECTORS

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 Chairman (resigned 5 February 2002)

Sheryl Daniels-Young (I)
Non-Executive Director (resigned 10 April 2003)

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**

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

Principal Activity

The principal activity of the Group 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 from idea conception to established businesses.

Review of business

The year saw the evolution of Brainspark's business model, from the sole incubator approach, to a diversified revenue stream, consistent with the Company's and new Board's know how.

The first areas of intervention, to grow revenue, were identified and include, among others: IT portfolio management, private placements and fund raising through advanced financial instruments.

Directors

The present members of the Board of Directors together with brief biographies are shown on page 5. The members of the board who served during the year are shown on page 6.

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 6. On the same day, the following directors appointments were made - Professor Francesco Gardin, Alberto Agosta and David Meacher. Professor Francesco Gardin resigned as director on 28 October 2002 but subsequently rejoined the Board on 14 November 2002. On 7 November 2002 Edward Burman was appointed as a director.
Mrs Sheryl Daniels Young resigned as a director on 10 April 2003.

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 2002, 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' interests

The directors' interests in the ordinary share capital of the Company at 31 December 2002 and 1 January 2002, or if later, the date of appointment were as follows:

	Beneficial holdings Number of shares	
	31 December 2002	1 January 2002
Executive Directors		
F. Gardin	-	-
A. Agosta	-	-
Non-Executive Directors		
S. Daniels-Young	-	-
D. Meacher	-	-
E. Burman	-	-
D. R. Caldwell	-	-

None of the directors listed above have any interests in options to acquire ordinary shares at 31 December 2002.

None of the directors listed above have any interests in the ordinary share capital of the Company at 30 May 2003.

The market price of the ordinary shares at 31 December 2002 was 3.5p and the highest and lowest mid price during the year were 4.25p and 2.25p respectively.

Interests in holding Company

As at 31 December 2002 the following directors also had beneficial interest in AISoftw@re S.p.A., the immediate and ultimate parent Company.

	Beneficial holdings	
	Number of shares	% Holding
Executive Directors		
F. Gardin	1,425,940	20.87
A. Agosta	1,360	.02

Substantial shareholder interests

As at 30 May 2003, 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
AISoftw@re S.p.A.	80,740,294	43.08
Cross Atlantic Technology Fund, LP	33,916,050	18.10
Infusion S.p.A.	64,147,004	34.23

Except as stated in note 31 in connection with the Company's purchase of Infusion 2002 Limited from Infusion S.p.A., there were no contracts of significance between the Group and controlling shareholders during the year.

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 14.

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 2002 was 72 days (2001: 59 days).

Charitable and political contributions

There were no charitable or political donations made during the year (2001 - nil).

Auditors

Mazars were appointed as auditor during the year following the resignation of PricewaterhouseCoopers. Mazars 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
23 June 2003

Remuneration Committee's report

The Remuneration Committee of the Board (the Committee) comprised of two non-executive directors of the Company, D. R. Caldwell and D. Meacher, and the Chief Executive Officer of the Company A. Agosta. The Committee is responsible for setting the remuneration of the executive directors.

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 where appropriate.

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

Service contracts

Francesco Gardin and Alberto Agosta are employed by the Company. Each service contract is terminable on the statutory minimum notice.

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

	Salary, fees & expenses £'000	Benefits £'000	Compensation payments £'000	2002 Total £'000	2001 Total £'000	2002 Pensions £'000	2001 Pensions £'000
Executive directors							
F. Gardin	33	-	-	33	-	-	-
A. Agosta	61	-	-	61	-	-	-
S.M. Dodd (resigned 5 February 2002)	-	-	-	-	200	-	-
N. Freedman (resigned 5 February 2002)	-	-	-	-	149	-	-
J.R.A. Judd (resigned 5 February 2002)	-	-	-	-	146	-	4
Non-executive directors							
S Daniels-Young (resigned 10 April 2003)	15	-	-	15	4[1]	-	-
D R Caldwell	15	-	-	15	44[1]	-	-
D. Meacher	14			14			
E.Burman	-	-	-	-	-	-	-
P.J. Corley (resigned 5 February 2002)	-	-	-	-	19	-	-
A. Hawkins (resigned 5 February 2002)	-	-	-	-	18	-	-
Total	138	-	-	138	580	-	4

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

There were no bonuses paid to directors during the year.

REMUNERATION COMMITTEE'S REPORT

Directors' interests in share options and warrants

At 31 December 2002, none of the directors had outstanding share options and warrants in the Company.

Don Caldwell
Chairman of the Remuneration Committee
23 June 2003

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.

During the year 2002, 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 two executive directors including the Chief Executive Officer and four non-executive directors. Don Caldwell is the representative of Cross Atlantic Capital Partners. The other directors are independent.

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

The Board is responsible for the overall management of the Group. 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.

Directors had access to the advice and services of the Company Secretary who is responsible for ensuring the Board procedures are followed and could also have taken advice from the Company's lawyers at the Company's expense.

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 and Remuneration Committees.

Investment Committee

The Investment Committee met whenever significant investment matters arose which are not dealt with in the normal course of Board business.

Audit Committee

The Audit Committee is responsible for dealing with accounting matters, financial reporting and internal controls and comprises the four non-executive directors with the Chief Executive Officer.

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

The Committee is comprised of two 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.

Nominations Committee

As part of the organisational changes following the take over by AISoftw@re S.p.A., there was no plan for any recruitment and appointment. It was decided at Board level not to set up a nomination committee.

Post year end changes in Corporate Governance

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

The Board now comprises two executive and three non-executive directors.

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.

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,

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.

Corporate Governance

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 enable them to ensure that the financial statements comply with the 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, 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.

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.

Independent auditors' report to the members of Brainspark plc

We have audited the financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.
This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Directors' Remuneration Committee's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 in 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRAINSPARK PLC

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2002, and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mazars
Chartered Accountants and Registered Auditors
19 Goldington Road
Bedford
27 June 2003

Financial Statements

Consolidated profit and loss account
For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Turnover	2	-	-
Net operating expenses – recurring	3	(1,612)	(4,149)
Net operating expenses – exceptional	3	(1,087)	(3,550)
Total net operating expenses/Group operating loss		(2,699)	(7,699)
Share of operating loss of associated undertakings	4	(335)	(5,329)
Total operating loss: Group and share of associated undertakings		(3,034)	(13,028)
Exceptional items			
Profit on deemed disposal of interests in associated undertakings	5	-	421
Loss on disposal, liquidation and provisions for loss on disposal of interests in associated undertakings	5	-	(223)
Loss on ordinary activities before interest		(3,034)	(12,830)
Net interest receivable	8	123	396
Amounts written off investments	16	(200)	(499)
Loss on ordinary activities before taxation	9	(3,111)	(12,933)
Tax on loss on ordinary activities	10	-	-
Loss on ordinary activities after taxation		(3,111)	(12,933)
Equity minority interests		-	34
Retained loss for the financial year	24	(3,111)	(12,899)
Loss per 1p ordinary share			
Basic and diluted	12	(2.31p)	(10.5p)

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

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Loss for the financial year	24	(3,111)	(12,899)
Revaluation of fixed asset investments		-	(719)
Foreign exchange translation difference	24	32	-
Total recognised gains and losses for the year		(3,079)	(13,618)

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

BALANCE SHEET AT 31 DECEMBER 2002

	Notes	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Fixed assets					
Tangible assets	13	306	616	-	-
Investments in subsidiary undertakings	14	-	-	5,068	50
Investments in associated undertakings	15	4,291	250	-	-
Other investments	16	1,826	350	-	-
Investment in own shares	17	-	147	-	147
		6,423	1,363	5,068	197
Current assets					
Debtors	18	921	981	1,876	1,469
Cash at bank and in hand	19	964	5,553	-	5,391
		1,885	6,534	1,876	6,860
Creditors: amounts falling due within one year	20	(525)	(762)	(50)	(50)
Net current assets		1,360	5,772	1,826	6,810
Total assets less current liabilities		7,783	7,135	6,894	7,007
Provisions for liabilities and charges	22	(1,092)	(122)	-	-
Net assets		6,691	7,013	6,894	7,007
Capital and reserves					
Called up share capital	23	1,874	1,233	1,874	1,233
Share premium account	24	28,558	26,442	28,558	26,442
Other reserves	24	6,845	6,813	-	-
Profit and loss account (deficit)	24	(30,586)	(27,475)	(23,538)	(20,668)
Total equity shareholders' funds		6,691	7,013	6,894	7,007

These financial statements were approved by the Board of Directors on 23 June 2003.

Signed on behalf of the Board.

Alberto Agosta
Chief Executive Officer

Reconciliation of movements in shareholders' funds
For the year ended 31 December 2002

	Notes	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Loss for the period	24	(3,111)	(12,899)	(2,870)	(17,021)
New share capital issued		2,757	-	2,757	-
Foreign exchange translation differences	24	32	-	-	-
Revaluation of fixed asset investments		-	(719)	-	-
Credit for issue of shares at below market value		-	126	-	-
Net reduction in shareholders' funds		(322)	(13,492)	(113)	(17,021)
Opening shareholders' funds		7,013	20,505	7,007	24,028
Closing shareholders' funds		6,691	7,013	6,894	7,007

Consolidated cash flow statement
For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Net cash outflow from operating activities	25	(1,451)	(3,696)
Returns on investments and servicing of finance			
Interest received		125	381
Interest paid		(65)	-
Net cash inflow from returns on investments and servicing of finance		60	381
Capital expenditure and financial investment			
Purchase of tangible fixed assets	13	-	(61)
Receipts from sale of tangible fixed assets		11	13
Purchase of other investments		(128)	-
Sale of own shares		176	-
Net cash inflow (outflow) from capital expenditure and financial investment		59	(48)
Acquisitions and disposals			
Purchase of subsidiary undertaking	27	(2,324)	-
Purchase of investments in associated undertaking	27	(964)	(385)
Loans to associated undertakings	15	-	(465)
Net cash outflow from acquisitions and disposals		(3,288)	(850)
Net cash outflow before financing		(4,620)	(4,213)
Financing			
Issue of ordinary share capital		31	-
Net cash inflow from financing		31	-
Decrease in net cash for the period		(4,589)	(4,213)
Reconciliation of cash flow to movement in net funds			
Net cash at beginning of period		5,553	9,766
Decrease in net cash in the period		(4,589)	(4,213)
Net cash at end of period		964	5,553

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 is set out below.

Going Concern

These financial statements have been prepared on a going concern basis as the directors are satisfied that the Company and the Group have adequate resources to meet liabilities when they fall due.

Consolidation

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

Group Reorganisation

The Company applied the Companies Act merger relief provisions when it issued shares to acquire the entire share capital of Brainspark Associates Limited in previous years. Accordingly no share premium was recorded relating to the Company's issue of these 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. 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. Goodwill arising is amortised over its useful economic life, which is estimated to be between three and five years.

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 software and equipment	33% - 50%

Foreign Currencies

Assets, liabilities, revenues and costs expressed in foreign currencies are translated into sterling at rates of exchange ruling on the date on which transactions occur except for monetary assets and liabilities, which are translated at the rate ruling at the balance sheet date.
Financial statements of overseas associates are translated at the rate ruling at the balance sheet date. Exchange differences are dealt with through reserves.

NOTES TO THE FINANCIAL STATEMENTS

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 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 historical 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

The Company operates an Employee Benefit Trust. The Company has de facto control of the shares held by the Trust and bears their benefits and risk and so record certain assets and liabilities of the Trust as its own. Finance costs and administrative expenses are charged as they occur.

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.

Deferred taxation

Deferred tax is provided in respect of all timing differences at the rates of tax expected to apply when the timing differences reverse. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2 Segment 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	2002 Turnover £'000	2002 Operating (loss) £'000	2002 Net assets £'000	2001 Turnover £'000	2001 Operating (loss) £'000	2001 Net assets £'000
Continuing Operations						
Business incubation	-	(2,699)	2,400	-	(7,699)	6,763
Share of associated undertakings	1,291	(335)	4,291	708	(5,329)	250
Less share of associated undertakings	(1,291)	-	-	(708)	-	-
	-	(3,034)	6,691	-	(13,028)	7,013

3 Net operating expenses

	2002 £'000	2001 £'000
Recurring		
Administrative expenses	1,612	4,149
Exceptional administrative expenses		
National Insurance on warrants	-	(243)
Redundancy costs	-	850
Penalties and legal costs arising from surrender of lease	970	-
Impairment charge	146	-
Amounts written off and provisions against loans to associated undertakings	-	645
Provision against investment in own shares (note 17)	-	2,298
Profit on sale of own shares (note 17)	(29)	-
Total administrative expenses	2,699	7,699

4 Share of operating loss of associated undertakings

	2002 £'000	2001 £'000
Share of operating loss of associated undertakings	(174)	(1,407)
Amortisation of goodwill on acquisition	(161)	(2,507)
Impairment of goodwill	-	(1,415)
	(335)	(5,329)

Notes to the financial statements

5 Exceptional items

	2002 £'000	2001 £'000
Profit on deemed disposal of interests in associated undertakings	-	421
Loss on disposal, liquidation and provisions for loss on disposal of interests on associated undertakings	-	(223)

The profit on deemed disposal in 2001 represented 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. There were no dilutions in the Group's interest in associated undertakings in the year to 31 December 2002.

The net loss on disposal of interests in associated undertakings comprised an additional loss over the sale of shares in Perfectday amounting to £223,000.

6 Employee information

	2002 Number	2001 Number
The average number of employees during the period were as follows:		
Incubation management and operations	2	19

	2002 £000	2001 £000
Staff costs during the period including directors comprise:		
Wages and salaries	148	1,084
Social security costs	8	131
Exceptional National Insurance on warrants (note 3)	-	(243)
Other pension costs	4	90
	160	1,062

Notes to the financial statements

7 Directors' remuneration

	2002 £'000	2001 £'000
Aggregate emoluments	138	471
Contributions to defined contribution pension scheme	-	24
	138	495

There are no retirement benefits accruing to the directors (2001: Five) under a defined contribution pension scheme.

Compensation to directors for loss of office

	2002 £'000	2001 £'000
For services as a director	-	317

Highest paid director

The emoluments of directors disclosed above include the following amounts paid to the highest paid director.

	2002 £'000	2001 £'000
Aggregate emoluments	61	119
Company contribution to defined contribution pension scheme	-	9
	61	128

8 Net interest receivable

	2002 £'000	2001 £'000
Bank deposits	100	381
Interest receivable from AISoftw@re Group companies	88	15
Interest payable to AISoftw@re Group companies	(65)	-
	123	396

9 Loss on ordinary activities before taxation

	2002 £'000	2001 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	521	467
Amortisation of goodwill re associated undertakings	161	2,507
Charges for impairment of goodwill re associated undertakings	-	1,415
Charge for shares issued below market value	-	126
Operating lease rentals:		
Land and buildings	534	489
Office equipment	25	19
Auditors' remuneration:		
Audit of parent undertaking	3	3
Audit of subsidiary undertakings	22	45
Non audit services:		
PricewaterhouseCoopers	22	43
Mazars	3	-

10 Tax on loss on ordinary activities

	2002 £'000	2001 £'000
Current Tax:		
UK Corporation tax on loss for the period	-	-
Deferred taxation	-	-
Tax on loss on ordinary activities	-	-

The Group has no tax charge for the year due to losses incurred and has a potential deferred tax asset arising from unutilised management expenses available for carry forward and relief against future taxable profits. The deferred tax asset has not been recognised in the financial statements in accordance with the Group's accounting policy for deferred tax.

The Group's unutilised management expenses carried forward at 31 December 2002 amount to approximately £11 million (2001: £9 million).

Notes to the financial statements

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 £2,870,000 (2001: £17,021,000).

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 had no dilutive share options and warrants at the end of the period. Furthermore any dilution in shares would only 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	2002 Weighted average no of shares 000's	Per share Amount pence	(Loss) £'000	2001 Weighted average no of shares 000's	Per share Amount pence
Basic loss per share						
Loss attributable to ordinary shareholders	(3,111)	134,681	(2.31)	(12,899)	123,258	(10.5)
Effect of dilutive shares						
Options	-	-	-	-	18,390	-
Diluted loss per share						
Adjusted loss	(3,111)	134,681	(2.31)	(12,899)	141,648	(10.5)

Notes to the financial statements

13 Tangible fixed assets

Group	Leasehold improvements £'000	Office furniture and equipment £'000	Computer software and equipment £'000	Total £'000
Cost				
At 1 January 2002	288	401	619	1,308
Acquired from subsidiary	-	-	222	222
Disposals	-	-	(20)	(20)
At 31 December 2002	288	401	821	1,510
Accumulated depreciation				
At 1 January 2002	83	234	375	692
Charge for the year	140	128	253	521
Disposals	-	-	(9)	(9)
At 31 December 2002	223	362	619	1,204
Net book amount				
At 31 December 2002	65	39	202	306
At 31 December 2001	205	167	244	616

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 amounting to £146,000 of which £83,000 was charged against leasehold improvement, £49,000 against office furniture and equipment and £14,000 against computer equipment.

14 Investment in subsidiary undertakings

Company	Shares £'000
Cost	
At 1 January 2002	1,476
Eliminated on dissolution	(550)
Additions (note 27)	5,050
At 31 December 2002	5,976
Provisions	
At 1 January 2002	1,426
Adjustments to carrying value	32
Eliminated on dissolution	(550)
At 31 December 2002	908
Net book amount	
At 31 December 2002	5,068
At 31 December 2001	50

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 2002 were as follows:

Subsidiaries	Country of incorporation	% owned	Nature of Business
Brainspark Associates Limited	England	100	Internet incubation
Brainspark Private Equity Limited	England	100	Not trading
Brainspark Services Limited	England	100	Not trading
Infusion 2002 Limited	England	100	Internet incubation
Abbotcrown 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 2002	198	-	198
Additions	565	-	565
Exchange translation difference	32	-	32
Share of loss for the year	(174)	-	(174)
At 31 December 2002	621	-	621
Goodwill			
At 1 January 2002	52	-	52
Arising on acquisition	3,779	-	3,779
Amortisation of goodwill	(161)	-	(161)
At 31 December 2002	3,670	-	3,670
Cost			
At 1 January 2002 and December 2002	-	300	300
Provisions			
At 1 January 2002 and at 31 December 2002	-	(300)	(300)
Net book amount			
At 31 December 2002	4,291	-	4,291
At 31 December 2001	250	-	250

15 Investments in associated undertakings (continued)

Name	Number of shares held	% owned	Class of shares	Country of incorporation	Business Activity
EasyArt	54,690	22.1	1p A Ordinary	England	Artwork supplies
Fortune Cookie	50,000	25.0	1p A Ordinary	England	Web development
GeoSim	142,782	45.1	.001 NIS	Israel	3D Geographic modelling cities
Impression	50,000	20.0	€ 1 Ordinary	Italy	Web Traffic Measurement
Kerb	30,167	25.0	1p A Ordinary	England	Web development
Ludonet	542,500	35.0	€ 1 Ordinary	Italy	On line games and e-learning
Smile-on	12,600,000	41.2	1p A Ordinary	England	B2B dentist website
TraderServe	1,250,000	34.6	0.1p A Ordinary	England	Proprietary trading services
Usability	330,000	32.2	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:

	2002 £'000	2001 £'000
Turnover	1,291	708
Fixed assets	483	84
Current assets	972	386
Liabilities due within one year	818	262
Liabilities due after one year	377	10

The Group's share of GeoSim's and Ludonet's turnover and results since acquisition and its share of net assets at 31 December 2002 were as follows:

	GeoSim 2002 £'000	Ludonet 2002 £'000
Turnover	-	137
(Loss)/profit before and after tax	(210)	118
Fixed assets	175	198
Current assets	562	119
Liabilities due within one year	434	68
Liabilities due after one year	6	14

NOTES TO THE FINANCIAL STATEMENTS

16 Other investments

Group	£'000
Cost or Valuation	
At 1 January 2002	350
Additions	1,676
Net deficit on revaluation	(200)
At 31 December 2002	1,826

Additions in the year include a 16.21% holding in ACS, a virtual reality software company and a 1.3% stake in San Vicente, a US venture capital fund as part of the acquisition of Infusion 2002 Limited (see note 27). During the year these additions amounted to £1,476,000.

The remaining investments comprise a 4.97% investment in the ordinary share capital of MetaPack Limited valued at £350,000 of which £200,000 was invested during the year together with 4.16% holdings in Property Investment Exchange Limited which is held at nil book value. The net deficit on revaluation in the year relates to MetaPack and has been charged to the profit and loss account.

The historical cost equivalent value for other investments in 2002 is £3,538,000 (2001: £1,862,000).

17 Investment in own shares

Company and Group	£'000
Cost or valuation	
At 1 January 2002	147
Disposal of investment	(176)
Profit on disposal	29
At 31 December 2002	-

At the time of the flotation in March 2000 a loan of £5.3 million was made to an Employee Benefit Trust which invested the proceeds wholly in Company shares. This arrangement was treated as an investment in own shares and was represented at 1 January 2002 by 4,236,329 ordinary shares (3.44%) with a nominal value of £42,363 and a bid market value of £147,000. The Employee Benefit Trust accepted the cash offer of 4.25p per share from AISoftw@re S.p.A. in February 2002 receiving a net income of £176,000 from the sale of these shares.

Notes to the financial statements

18 Debtors

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	-	-	1,876	1,469
Amounts owed by associated undertakings	72	39	-	-
Other debtors	590	710	-	-
Prepayments and accrued income	259	232	-	-
	921	981	1,876	1,469

19 Cash at bank in hand

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Bank deposits	-	5,503	-	5,391
Bank current accounts	964	50	-	-
	964	5,553	-	5,391

20 Creditors: amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade creditors	236	243	-	-
Other taxes and social security costs	-	43	-	-
Other creditors	100	25	-	-
Accruals	189	451	50	50
	525	762	50	50

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.

21 Financial instruments (continued)

Interest rate risk

Surplus cash funds 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	**2002 £'000**	**2001 £'000**
Sterling deposits	-	5,503
Cash at bank and in hand	964	50
	964	5,553

There were no Sterling cash deposits in 2002. In 2001 the Sterling cash deposit earned a floating rate based on LIBID and these rates ranged between 3.73% and 5.94%. The remaining bank account balances have earned a floating rate of interest during the year based on bank premium account rates of between 3.75% and 4.50% (2001: 0.85% and 2.6%) 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 2002 and 31 December 2001 there was no difference between the book value and fair value of the financial assets.

Foreign currency exposures

At 31 December 2002 and 31 December 2001 the Group had no material exposure to foreign currency movements.

NOTES TO THE FINANCIAL STATEMENTS

22 Provision for liabilities and charges

Group	NIC on share warrants £'000	Onerous Property lease £'000	Total £'000
At 1 January 2002	122	-	122
Addition	-	970	970
At 31 December 2002	122	970	1,092

Onerous Property Lease

A provision of £970,000 has been recognised for the surrender of the onerous lease of the Company's premises. This includes £950,000 for the lease surrender, which was completed on 13 June 2003 and a further £20,000 in respect of anticipated legal and professional costs arising from the settlement.

National Insurance Contributions on Share Warrants

The above provision represents a potential liability to pay Employers National Insurance on the exercise of share warrants issued to employees over shares in the Company.

23 Called up share capital

Group and Company	2002 Number	2001 Number	2002 £'000	2001 £'000
Authorised				
Ordinary shares of 1p each	500,000,000	185,000,000	5,000	1,850

Group and Company	2002 Number	2001 Number	2002 £'000	2001 £'000
Allocated, called up and fully paid				
Ordinary shares of 1p each				
At 1 January	123,257,905	123,257,905	1,233	1,233
Issued during the year	64,147,004	-	641	-
At 31 December	187,404,909	123,257,905	1,874	1,233

Share Capital

The Company increased its authorised share capital to 500,000,000 by the creation of 315,000,000 1p ordinary shares. On 28 October 2002 the Company issued 64,147,004 shares at 4.25p per share in part settlement of the acquisition of Infusion 2002 Limited.

NOTES TO THE FINANCIAL STATEMENTS

24 Reserves

Group	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2002	26,442	6,813	(27,475)	5,780
Issue of shares	2,116	-	-	2,116
Foreign exchange translation differences	-	32	-	32
Retained loss for year	-	-	(3,111)	(3,111)
At 31 December 2002	28,558	6,845	(30,586)	4,817
Company				
At 1 January 2002	26,442	-	(20,668)	5,774
Issue of shares	2,116	-	-	2,116
Retained loss for year	-	-	(2,870)	(2,870)
At 31 December 2002	28,558	-	(23,538)	5,020

Other reserves represents a merger reserve amounting to £6,813,000 arising on the acquisition by the Company of the entire share capital of Brainspark Associates Limited, together with a foreign exchange fluctuation reserve arising on equity accounting for the Group interest in its overseas associates of £32,000.

25 Reconciliation of operating loss to net cash outflow form operating activities

Group	2002 £'000	2001 £'000
Operating loss	(2,699)	(7,699)
Depreciation charge	521	467
Provisions against loans to associated undertakings	-	645
Provision against investment in own shares	-	2,298
Loss on disposal of fixed assets	-	100
Profit on sale of own shares	(29)	-
Decrease in debtors	123	383
(Decrease)/increase in creditors	(337)	247
Charge for issue of shares at below market value	-	126
Increase/(reduction) in provisions	970	(263)
Net cash outflow from operating activities	(1,451)	(3,696)

26 Analysis of changes in net funds

Group	At 1 January 2002 £'000	Cash flow £'000	At 31 December 2002 £'000
Cash at bank and in hand	5,553	(4,589)	964

27 Purchase of subsidiary undertakings

The Company acquired 100% of Infusion 2002 Limited on 29 October 2002 for a consideration of £5,050,000. This acquisition has been accounted for by the acquisition method of accounting. The net operating expenses of Infusion 2002 Limited and the share of net operating loss of that company's associated undertakings on equity accounting that are included in the Group's results amount to £32,000 and £185,000 respectively. Infusion 2002 Limited had not traded prior to its acquisition.

There were no adjustments made to the book value of assets and liabilities acquired to arrive at fair values included in the consolidated financial statements at the date of acquisition. The book values acquired and cash flow effects of the acquisition are as follows:

Net assets acquired	2002 £'000
Investment in associates (Net assets and goodwill)	3,352
Other investments	1,476
Intangible assets	222
	5,050
Satisfied by:	
Shares allotted	2,726
Cash	2,324
	5,050

The subsidiary undertaking acquired during the year did not contribute to the Group's operating cash flows. A further £964,000 cash was paid in acquiring further shares in one of its associates together with £65,000 paid in interest. These cash flows are included in the Group's cash flow statement.

28 Non Cash Transactions

During the year the Company issued new shares amounting to £2,726,000 in part settlement of the acquisition of Infusion 2002 Limited from Infusion S.p.A. (See note 27 and 31 for further details).

29 Pension commitments

The Company operated a defined contribution Group Personal Pension Scheme to provide retirement benefits for the majority of its employees. The Group pension cost for the year relates to the employer contributions made to the scheme of 7.5% of former employee salaries, and amounted to £4,000 (2001: £90,000).

30 Operating lease commitments

Operating lease rentals payable during the next year are as follow:	Land and buildings		Office equipment	
	2002 £'000	**2001 £'000**	**2002 £'000**	**2001 £'000**
Commitments expiring				
Within one year	-	-	-	-
Between two and five years	-	-	19	19
After five years	534	489	-	-
	534	489	19	19

The Company has surrendered property above lease in the current financial year and a new lease at an annual rent of £170,000 is to be taken.

31 Related party transactions

On 29 October 2002 the Company acquired the entire share capital of Infusion 2002 Limited (a new company which holds certain of the portfolio investments previously owned by Infusion S.p.A. The consideration for the transaction was £5.05 million. The consideration for the transaction was satisfied by the issue of 64,147,004 ordinary shares to Infusion S.p.A. and the payment of £2.32 million in cash. The cash consideration of £2.32 million was retained by Brainspark plc in settlement of a loan that it had made to Infusion S.p.A. prior to the transaction. As part of this transaction the Group became responsible for settlement of Infusion S.p.A.'s outstanding $1.5 million share subscription obligation plus interest to GeoSim, one of Infusion 2002 Limited's portfolio investments. This obligation was settled by the Group before the end of the financial year. Out of the total payments sterling equivalent of £964,000 plus interest of £65,000 that was made to GeoSim, £192,000 was paid to Infusion S.p.A. who had advanced this sum to GeoSim prior to the transaction. The interest arising on this transaction amounting to £65,000 is reimbursable by Infusion S.p.A. and is included within prepayments and accrued income.

Brainspark Associates Limited provided accommodation and management services to its associated undertakings and investments during the year and recharged the cost of utilities and IT equipment incurred on behalf of investee companies. The total amounts recharged during the year were £245,000 (2001: £366,000) and the amounts due from investee companies at 31 December 2002 included in debtors were £12,000 (2001: £39,000) inclusive of VAT (see note 18) but after provisions of £65,000. (2001: £39,000 without provision).

During the year £60,000 (2001: £465,000) of loans were made to associated undertakings and the amounts outstanding at 31 December 2002 were £360,000 of which £300,000 is included in the investments in associated undertakings before provisions (see note 15) and a further £60,000 in debtors due within one year.

32 Ultimate parent company

The immediate and ultimate parent company and controlling party from 5 February 2002 is AISoftwa@re S.p.A., a company registered 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 OF 2003 ANNUAL GENERAL MEETING

Notice is hereby given that the 2003 Annual General Meeting of Brainspark plc will be convened at The Lightwell, Laystall Street, London EC1R 4PF on 31 July 2003 at 11 am 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 2002.

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

3 To re-elect Francesco Gardin as a Director.

4 To re-elect Edward Burman as a Director.

5 To re-elect Don Caldwell as a Director.

6 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 2004 unless the allotment of relevant securities is made in pursuance of an offer or agreement entered into prior to such date.

SPECIAL RESOLUTIONS

7 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 2003

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.

BRAINSPARK PLC

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