Brainspark

Annual Report and Accounts

2003

Brainspark

ANNUAL REPORT AND ACCOUNTS 2003

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

BRAINSPARK PLC

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Company information

Directors	Francesco Gardin, Chairman Alberto Agosta, CEO 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	Beaumont Cornish Limited Georgian House 63 Coleman Street London EC2R 5BB
Broker	Hoodless Brennan & Partners Plc Docklands 40 Marsh Wall London E14 9TP
Registrar	Capita IRG Plc The Warrant House High Street Altrincham Cheshire WA14 1PZ

Chairman's statement

I present the Company's report for the year ended 31 December 2003.

The results show a loss in the year of £2.9 million compared to a loss of £3.1 million for the financial year to 31 December 2002. The results have been influenced by the continuing negative market conditions affecting the technology investment market and managements' efforts in successfully renegotiating the liabilities arising under its lease contract.

As far as the market is concerned, finally there is some evidence of a return of confidence from investors and financial institutions and I am cautiously optimistic for the future. Following the acquisitions that were made in the last quarter of 2002, the Company now has a portfolio covering a geographic area ranging from UK, to Italy and Israel. Our focus will be on the current portfolio companies by assisting them to create value, in harsh market conditions.

The cost-cutting measures begun in 2002, have reduced further the cash "burn-rate" to an average of £41,000 per month for the year, net of recovery of rent and charges made to the cubs.

One of the most important contributions to the reduction in the monthly cash "burn-rate" was the surrender of the lease of premises at The Lightwell, Laystall Street, London EC1R 4PA to Brainspark's landlord, Laystall House Limited. The existing lease, expiring 24 March 2015, was set 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.

Finally the lease was shortened to one covering 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 Company hopes to recover much of this rent from the portfolio companies, which remain unaffected by the above transaction, as they occupy office space on short-term licences.

In order to preserve cash resources and to demonstrate their own belief in Brainspark's future, the Directors resolved on 31 July 2003 to use their contractual remuneration to subscribe either for equivalent equity in Brainspark or waive their rights to such contractual remuneration in consideration of the grant of warrants over equity.

The Directors were offered a choice between subscribing for ordinary shares of 1p each or receiving warrants exercisable into such ordinary shares. The shares were allotted at the price of 1.1p. The Warrants have an exercise price of 1.1p or 1.32p and are exercisable within three years of grant. The mid-market price of the Shares at the close of business on 29 June 2004 was 0.63p.

As a results of the distribution by AISoftw@re of the shares that it owned in the Company as a dividend in kind to its shareholders, made at the end of June 2003, the volume of the shares that have been traded has greatly increased, jumping from a minimal level to about 1 million of the shares traded daily.

Summary Financial Results

The Group's cash reserves at 31 December 2003 stood at £68,000 compared with £964,000 at 31 December 2002.

The Group's net asset value (NAV) was £3.8 million at 31 December 2003, compared with £6.7 million at 31 December 2002, equivalent to 19.76p per share.

On 12 December 2003 Brainspark repaid £100,000 of the £200,000 loan granted by Cross Atlantic, a major shareholder of the Company.

Market Environment

In my comments on the Interim Results for the six month period to 30 June 2003, I noted some early signals that could indicate a return of confidence and new interest for the start up companies. However sentiment towards the technology sector remains sceptical and the businesses in which the Company invested have not been able to achieve, for another year, follow-on funding and related valuation gains as originally hoped for.

Therefore, during the year, Brainspark had to support certain of its portfolio investments with cash injections through capital increases, day to day credit and loans.

Operational Changes

The Board continuously monitors 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, reducing to below £38,000 per month. These actions reduced the negative impact of operating expenses on our NAV. The Board will continue to be focused during 2004 on further reducing the monthly cash requirement to a minimum.

As stated above, the Board was focused during the first half of 2003 on renegotiating surrender of the lease at The Lightwell.

Board Changes

Sheryl Daniels Young tendered her resignation with effect from 10 April 2003. 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.

Investment Committee Changes

At the end of 2003, Prof. John Campbell was appointed as a member of the Investment Committee, replacing Sheryl Daniels Young. Professor Campbell's extensive experience should greatly assist the Board through difficult market conditions.

Business Process

Brainspark continues to monitor and rationalize its operational infrastructure and leverage the knowledge and market potential of the whole investment portfolio.

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

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 relatively quickly through a trade sale or flotation.

Investments Review

Brainspark has holdings in eleven companies: six in the UK, three in Italy, one in Israel and one in USA. Its stakes rang from nearly 2 per cent to nearly 52 per cent of the relevant portfolio companies. The portfolio covers a wide range of business sectors including Web service, application service providers and advanced technology solution.

Many of the portfolio companies have not made progress as originally envisaged; but, in spite of that, the Directors believe that our portfolio companies are concentrating on improving their businesses over a longer time frame.

Among the portfolio companies, positive signs are emerging especially at EasyArt, GeoSim, Kerb, Metapack and The Usability Company.

On 4 December 2003, Brainspark sold its stake (4.16 per cent) in Propex (a company providing an internet exchange for commercial property) for £77,000.

In addition, during the year, the Company increased its holding structure as follows:

- On 4 December 2003, the Company increased its percentage ownership in Fortune Cookie from 25 per cent to 29.44 per cent by capitalising a £48,000 of rental charges payable. This transaction puts Fortune Cookie in a better financial position to enter into discussions for potential mergers to enlarge its market share and to participate in a large innovation project overseas.
- From June 2003 to March 2004, Brainspark made further investments in GeoSim Systems Limited increasing its ownership to 51.75 per cent.
- The Company's interest in Ludonet has reduced from 35 per cent to 14.875 per cent as a result of the dilution in the Group's interest after Ludonet received Euro 230,000 (£ 162,000) from new investors.
- MetaPack, the Company increased its stake through a capital injection of £15,000, increasing the percentage ownership from 4.97 to 5.89.

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.

On 29 December 2003, the Board agreed to issue up to £500,000 convertible loan notes. An initial allotment of £50,000 Notes has already been issued.

The Company's current strategy is to raise further capital from existing key shareholders, and sell some of the non strategic portfolio companies, with the objective of using the proceeds for general working capital purposes to purchase new investments and to support a potential IPO for at least one of our portfolio companies.

I think that the Board has taken the necessary steps to enable the financial performance of Brainspark to improve. A good response to our proposed capital raising and a positive change in market sentiment towards the technology sector will clearly provide further support to the business. If sentiment in the technology market improves, the Company's prospects should also improve.

Prof. Francesco Gardin
Chairman
28 June 2004

DIRECTORS

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. Francesco Gardin is now Chairman of AISoftw@re S.p.A. which is listed at the Milan Stock Exchange in 2000. Age 49.

Alberto Agosta (A, R)
Chief Executive Officer
Was appointed 5 February 2002 and he is Board Vice President of AISoftw@re S.p.A. and Chairman of Infusion srl. Prior to joining AISoftw@re S.p.A. he held various senior executives positions in several information technology companies. Age 59.

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 58.

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. Age 40.

Edward Burman (A)
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 56.

Key:

A **Member of the Audit Committee during the year**
I **Member of the Investment 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 2003.

Principal Activity

The principal activity of the Group is the investment in, and provision of incubation services to technology start up businesses.

Review of business

The year saw the evolution of Brainspark's business model, from the sole incubator approach, to a diversification of efforts in protecting the investee companies, whilst assisting them to create value. The Group's activities range from assisting the portfolio companies with their commercial development, merger and acquisition opportunities and fund raising.

A full review of the business and assessment of future prospects is provided in the Chairman's Statement.

Directors

The present members of the Board of Directors together with brief biographies are shown on page 4.

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 2003. Nor did any Directors of the Company have any beneficial interests in the shares of its subsidiary companies other than two of the Cross Atlantic Funds which hold a portion of MetaPack. Directors' interests in the shares of the Company are as shown below.

Directors' interests

The Directors' interests in the ordinary share capital of the Company at 31 December 2003 and 1 January 2003, or if later, the date of appointment were as follows:

	Beneficial holdings Number of shares		
	31 December 2003	**%**	**1 January 2003**
Executive Directors			
F. Gardin	31,903,278	16.59	-
A. Agosta	2,527,273	1.13	-
Non-Executive Directors			
D. Meacher	-		-
E. Burman	681,818	0.35	-
D. R. Caldwell	-		-

D. Meacher and Cross Atlantic have interests in share warrants, further information of which is provided in the Remuneration Committee Report.

The market price of the ordinary shares at 31 December 2003 was 0.53p and the highest and lowest mid price during the year were 3.75p and 0.50p respectively.

There have been no changes in the Directors' interests between the year end and 28 June 2004.

Change of ownership

Since 23 June 2003, Brainspark's shares which were held by AISoftw@are S.p.A, have been distributed as a dividend in kind, resulting in 21.21 Brainspark shares being issued for every 1 AISoftw@re share. As a consequence, AISoftw@re is no longer the the immediate and ultimate controlling party of the company.

Dividends

The Directors' are unable to recommend the payment of a dividend.

Substantial shareholder interests

As at 30 May 2004, substantial interests of 3 per cent 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
Cross Atlantic Technology Fund	33,916,050	17.64
F. Gardin	31,903,278	16.59

Corporate Governance

Details of the Company's corporate governance policy and its compliance with the principles of the Combined Code are set out in pages 9 to 11.

Creditor payment policy

The Group's policy is to settle all trade creditor balances in accordance with the terms of business agreed with the supplier. The Group's average creditor payment period at 31 December 2003 was 79 days (2002: 72 days).

Charitable and political contributions

There were no charitable or political donations made during the year (2002 - nil).

Auditors

The auditors, 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
28 June 2004

REMUNERATION COMMITTEE'S REPORT

The Remuneration Committee of the Board (the Committee) is 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. The service contract for each executive is terminable on the statutory minimum notice.

Remuneration

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

	Salary and fees £'000	**Bonus £'000**	**2003 Total £'000**	**2002 Total £'000**
Executive Directors				
F. Gardin	40	12	52	33
A. Agosta	86	21	107	61
Non-executive Directors				
S Daniels-Young (resigned 10 April 2003)	4	-	4	15
D R Caldwell (Cross Atlantic)	4	-	4	15
D. Meacher	-	-	-	14
E.Burman	15	-	15	-
Total	149	33	182	138

D. R. Caldwell (assigned to Cross Atlantic), and D. Meacher were granted share warrants in lieu of fees for the year.

None of the Directors had any pension entitlement.

Directors' interests in share options and warrants

At 31 December 2003, the following Directors had outstanding share options and warrants in the Company, these remain exercisable at any time on or before 31 July 2005, as follows:

Interests in warrants

	Exercise Price	1 January 2003	Granted during the year	31 December 2003
		Number of warrants		
Non-Executive Directors				
D. Meacher	1.32p per share	-	2,904,545	2,904,545
D. R. Caldwell (Cross Atlantic)	1.1p per share	-	1,745,455	1,745,455

D. R. Caldwell assigned his entitlement in the share warrants to Cross Atlantic Technology Fund LLP.

Don Caldwell
Chairman of the Remuneration Committee
28 June 2004

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.

Since scaling down of the Company's 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 refocuses 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 three non-executive Directors. Don Caldwell is the representative of Cross Atlantic Capital Partners, a major shareholder. The other Directors are independent.

The composition of the Board during the year is shown on pages 4 and 5.

The Board is responsible for the overall management of the Group. The Board received regular 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 meets 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, ensuring the independence of the external auditors', financial reporting and internal controls and comprises the three 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 and the Chief Executive Officer. In framing its remuneration policy full consideration had been given to the provisions of Section 1B and Schedule A to the Combined Code.

Nominations Committee

There was no plan for any recruitment and appointment. It was decided at Board level not to set up a Nominations Committee.

Corporate Governance

The reduction in the size of the management team has necessitated a reduction in compliance with the Combined Code.

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 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.

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 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 ensuring the Group has effective internal controls in place throughout the year, as well as 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 the 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 2003 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 the 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 and other members of the group 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 to the circumstances of the company and the group, 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 the Company's and the Group's affairs as at 31 December 2003, 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
MK40 3JY
30 June 2004

Financial Statements

Consolidated profit and loss account
For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	-	-
Net operating expenses – recurring	3	(680)	(1,612)
Net operating expenses – exceptional	3	(39)	(1,087)
Total net operating expenses/Group operating loss		(719)	(2,699)
Share of operating loss of associated undertakings	4	(1,915)	(335)
Total operating loss: Group and share of associated undertakings		(2,634)	(3,034)
Loss on ordinary activities before interest		(2,634)	(3,034)
Net interest receivable	7	39	123
Amounts written off investments	15	(311)	(200)
Loss on ordinary activities before taxation	8	(2,906)	(3,111)
Tax on loss on ordinary activities	9	-	-
Loss on ordinary activities after taxation		(2,906)	(3,111)
Retained loss for the financial year	22	(2,906)	(3,111)
Loss per 1p ordinary share			
Basic and diluted earnings per share	11	(1.55p)	(2.31p)

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 2003

	Notes	2003 £'000	2002 £'000
Loss for the financial year	22	(2,906)	(3,111)
Foreign exchange translation difference	22	-	32
Total recognised gains and losses for the year		(2,906)	(3,079)

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

BALANCE SHEETS AT 31 DECEMBER 2003

	Notes	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Fixed assets					
Tangible assets	12	80	306	-	-
Investments in subsidiary undertakings	13	-	-	3,291	5,068
Investments in associated undertakings	14	2,639	4,291	-	-
Other investments	15	1,567	1,826	-	-
		4,286	6,423	3,291	5,068
Current assets					
Debtors	16	295	921	1,338	1,876
Cash at bank and in hand	17	68	964	-	-
		363	1,885	1,338	1,876
Creditors: amounts falling due within one year (including convertible debt)	18	(689)	(525)	(268)	(50)
Net current (liabilities)/assets		(326)	1,360	1,070	1,826
Total assets less current liabilities		3,960	7,783	4,361	6,894
Provisions for liabilities and charges	20	(122)	(1,092)	-	-
Net assets		3,838	6,691	4,361	6,894
Capital and reserves					
Called up share capital	21	1,923	1,874	1,923	1,874
Share premium account	22	28,562	28,558	28,562	28,558
Other reserves	22	6,813	6,845	-	-
Profit and loss account (deficit)	22	(33,460)	(30,586)	(26,124)	(23,538)
Total equity shareholders' funds		3,838	6,691	4,361	6,894

These financial statements were approved by the Board of Directors on 28 June 2004.

Signed on behalf of the Board.

Alberto Agosta
Chief Executive Officer

Reconciliation of movements in shareholders' funds
For the year ended 31 December 2003

	Notes	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Loss for the period	22	(2,906)	(3,111)	(2,586)	(2,870)
New share capital issued	21	53	2,757	53	2,757
Foreign exchange translation differences	22	-	32	-	-
Net reduction in shareholders' funds		(2,853)	(322)	(2,533)	(113)
Opening shareholders' funds		6,691	7,013	6,894	7,007
Closing shareholders' funds		3,838	6,691	4,361	6,894

Consolidated cash flow statement
For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Net cash outflow from operating activities	23	(967)	(1,451)
Returns on investments and servicing of finance			
Interest received		39	125
Interest paid		-	(65)
Net cash inflow from returns on investments and servicing of finance		39	60
Capital expenditure and financial investment			
Receipts from sale of tangible fixed assets		-	11
Purchase of other investments	15	(15)	(128)
Sale of other investments / own shares	15	77	176
Net cash inflow from capital expenditure and financial investment		62	59
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(2,324)
Purchase of investments in associated undertaking		(165)	(964)
Loans to associated undertakings		(15)	-
Net cash outflow from acquisitions and disposals		(180)	(3,288)
Net cash outflow before financing		(1,046)	(4,620)
Financing			
Issue of ordinary share capital		-	31
5% Convertible bond issue		50	-
Loan from major shareholder		200	-
Partial repayment of loan to major shareholder		(100)	-
Net cash inflow from financing		150	31
Decrease in net cash for the period		(896)	(4,589)
Reconciliation of cash flow to movement in net funds			
Net cash at beginning of period		964	5,553
Decrease in net cash in the period		(896)	(4,589)
Net cash at end of period	17	68	964

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.

In making their assessment the Directors have taken into account cash that they expect to generate from offers for sale of certain of the group's investments. The Directors are confident that these sales will proceed and generate funds in excess of those required to meet ongoing operating costs and other financial commitments that are expected to arise over the year following the adoption of these financial statements. The financial statements do not include any adjustments that would result if the directors' plans were not successful.

Consolidation

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

The profits and losses of the subsidiary and associated undertakings are consolidated from the date of acquisition to the date of disposal.

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	Over the period of the lease
Office furniture and equipment	33%
Computer software and equipment	33% - 50%

Notes to the financial statements

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.

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.

Operating lease rentals

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

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.

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.

Notes to the financial statements

2 Segment analysis

The Group carries on its business in three geographical locations namely the UK, Italy and Israel. Its principal activity is the provision of incubation services to technology start up businesses.

Activity	2003 Turnover £'000	2003 Operating (loss) £'000	2003 Net assets £'000	2002 Turnover £'000	2002 Operating (loss) £'000	2002 Net assets £'000
Continuing Operations						
Business incubation	884	(719)	1,049	-	(2,699)	2,400
Share of associated undertakings	(884)	(1,915)	2,789	1,291	(335)	4,291
Less share of associated undertakings	-	-	-	(1,291)	-	-
	-	(2,634)	3,838	-	(3,034)	6,691

3 Net operating expenses

	2003 £'000	2002 £'000
Recurring		
Administrative expenses	680	1,612
Exceptional administrative expenses		
Profit on disposal of other investments	(77)	-
Penalties and legal costs arising from surrender of lease	-	970
Impairment charge (note 12)	116	146
Profit on sale of own shares	-	(29)
Total administrative expenses	719	2,699

4 Share of operating loss of associated undertakings

	2003 £'000	2002 £'000
Share of operating loss of associated undertakings	(523)	(174)
Amortisation of goodwill on acquisition	(836)	(161)
Impairment of goodwill	(556)	-
	(1,915)	(335)

5 Employee information

	2003 Number	2002 Number
The average number of employees during the period were as follows:		
Incubation management and operations	2	2

	2003 £000	2002 £000
Staff costs during the period including directors comprise:		
Wages and salaries	187	148
Social security costs	2	8
Other pension costs	-	4
	189	160

6 Directors' remuneration

	2003 £'000	2002 £'000
Aggregate emoluments	182	138
	182	138

There are no retirement benefits accruing to the Directors (2002: Nil) under a defined contribution pension scheme.

Highest paid Director

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

	2003 £'000	2002 £'000
Aggregate emoluments	107	61
	107	61

Notes to the financial statements

7 Net interest receivable

	2003 £'000	2002 £'000
Bank deposits	39	100
Interest receivable from AISoftw@re Group companies	-	88
Interest payable to AISoftw@re Group companies	-	(65)
	39	123

8 Loss on ordinary activities before taxation

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	226	521
Amortisation of goodwill re associated undertakings	1,392	161
Operating lease rentals:		
Land and buildings	277	534
Office equipment	25	25
Auditors' remuneration:		
Audit of parent undertaking	2	3
Audit of subsidiary undertakings	13	22
Non audit services:		
PricewaterhouseCoopers	-	22
Mazars	-	3

NOTES TO THE FINANCIAL STATEMENTS

9 Tax on loss on ordinary activities

	2003 £'000	2002 £'000
Current Tax:		
UK Corporation tax	-	-
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 2003 amount to approximately £12 million (2002: £11 million).

The standard rate of tax for the current year, based on the UK standard rate of corporation tax is 30% (2002 – 30%). The actual tax for the current and previous year varies from the standard rate for the reasons set out in the following reconciliation:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(2,906)	(3,111)
Tax on ordinary activities at standard rate	872	933
Effects of:		
Expenses not deductible for tax purposes	(528)	(143)
Unutilised losses	(318)	(690)
Depreciation in excess of capital allowances	(26)	(100)
Current tax	-	-

10 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 £2,586,000 (2002: £2,870,000).

NOTES TO THE FINANCIAL STATEMENTS

11 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.

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

	(Loss) £'000	2003 Weighted average no of shares 000's	Per share Amount pence	(Loss) £'000	2002 Weighted average no of shares 000's	Per share Amount pence
Basic loss per share						
Loss attributable to ordinary shareholders	(2,906)	187,487	(1.55)	(3,111)	134,681	(2.31)

Financial Reporting Standard No14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the money options. Since it seems inappropriate that option holders would act irrationally, no adjustment has been made to diluted earnings per share for out-of-the money options as there are no other diluting share issues, diluted earnings per share equals basic earnings per share.

12 Tangible fixed assets

Group	Leasehold improvements £'000	Office furniture and equipment £'000	Computer software and equipment £'000	Total £'000
Cost				
At 1 January 2003	288	401	821	1,510
At 31 December 2003	288	401	821	1,510
Accumulated depreciation				
At 1 January 2003	223	362	619	1,204
Charge for the year	20	16	74	110
Impairment charge	-	-	116	116
At 31 December 2003	243	378	809	1,430
Net book amount				
At 31 December 2003	45	23	12	80
At 31 December 2002	65	39	202	306

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

Notes to the financial statements

13 Investment in subsidiary undertakings

Company	Shares £'000
Cost	
At 1 January 2003	5,976
At 31 December 2003	5,976
Provisions	
At 1 January 2003	(908)
Adjustments to carrying value	(1,777)
At 31 December 2003	(2,685)
Net book amount	
At 31 December 2003	3,291
At 31 December 2002	5,068

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 2003 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	Holding company for a portfolio of incubation and hi-tec investments
Abbotcrown Limited	England	100	Not trading

NOTES TO THE FINANCIAL STATEMENTS

14 Investments in associated undertakings

Group	Investments in associated undertakings £'000	Loans to associated undertakings £'000	Total £'000
Share of net assets			
At 1 January 2003	621	-	621
Transfer: Change in ownership from associate to investment	(37)	-	(37)
Share of loss for the year	(523)	-	(523)
At 31 December 2003	61	-	61
Goodwill			
At 1 January 2003	3,670	-	3,670
Arising on further acquisition in associates	300	-	300
Amortisation of goodwill	(1,392)	-	(1,392)
At 31 December 2003	2,578	-	2,578
Cost			
At 1 January 2003 and 31 December 2003	-	300	300
Provisions			
At 1 January 2003 and at 31 December 2003	-	(300)	(300)
Net book amount			
At 31 December 2003	2,639	-	2,639
At 31 December 2002	4,291	-	4,291

Notes to the financial statements

14 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	62,600	29.4	1p A Ordinary	England	Web development
GeoSim	235,566	51.7	.001 NIS	Israel	3D Geographic modelling cities
Impression	50,000	20.0	€ 1 Ordinary	Italy	In liquidation
Kerb	30,167	25.0	1p A Ordinary	England	Web development
Smile-on	13,275,676	38.3	1p A Ordinary	England	B2B dentist website
TraderServe	1,250,000	34.6	0.1p A Ordinary	England	Proprietary trading services
Usability	33,000	30.0	1p A Preference	England	Website research and consultancy

GeoSim has not been treated as a subsidiary on consolidation as the company had outstanding share options that were exercisable at the year end. The exercise of these options would dilute the group's interest to 49.75 per cent.

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

	2003 £'000	2002 £'000
Turnover	884	1,291
Fixed assets	29	483
Current assets	1,087	972
Liabilities due within one year	(248)	(818)
Liabilities due after one year	(820)	(377)

The group's share of GeoSim is as follows:

	2003 £'000	2002 £'000
Turnover	91	5
Loss before and after tax	(314)	(73)
Fixed assets	124	177
Current assets	452	540
Liabilities due within one year	(545)	(421)
Liabilities due after one year	(2)	(6)
Share of net assets	29	290

Notes to the financial statements

15 Other investments

Group	£'000
Cost or Valuation	
At 1 January 2003	1,826
Additions	15
Transfer from associate to investment as a result of dilution of holding	37
Amounts written off in the year	(311)
At 31 December 2003	1,567
At 31 December 2002	**1,826**

Other investments comprise a 5.89 per cent investment in the ordinary share capital of MetaPack Limited valued at £100,000 of which £15,000 was invested during the year and 16.21 per cent investment in ACS of £1,430,000.

The remaining £37,000 relates to the dilution of our interest in Ludonet which was previously held as an investment. The transfer from an associate to an investment was made at the point when our interest in the company was diluted.

During the year Company's entire investment in Propex was disposed resulting in a profit on disposal of £77,000, the investment of £1,013,000 had been fully depreciated at 31 December 2003 and 2002.

The historical cost equivalent value for other investments at 31 December 2003 is £1,863,000 (2002: £3,538,000).

16 Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	-	-	1,338	1,876
Amounts owed by associated undertakings	137	72	-	-
Other debtors	25	590	-	-
Prepayments and accrued income	133	259	-	-
	295	921	1,338	1,876

Notes to the financial statements

17 Cash at bank in hand

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank current accounts	68	964	-	-
	68	964	-	-

18 Creditors: amounts falling due within one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
5% Convertible notes	50	-	50	-
Trade creditors	244	236	-	-
Other creditors	283	100	-	-
Accruals	112	189	218	50
	689	525	268	50

5% convertible notes

On 29 December 2003, the company agreed to issue up to £500,000 of convertible loan notes. An initial allotment of £50,000 had been issued by the year end. The notes bear interest at 5 per cent per annum. The notes may be redeemed at any time by the company. Unless redeemed earlier, the notes mature on 1 September 2004 when the principal and interest is due to be repaid in full. If redeemed early, the holders of the notes will be granted warrants exercisable at any time prior to 1 September 2006 into ordinary shares of 1p each in the share capital of Brainspark Plc at an issue price of 1p per share. If the notes are not redeemed on the due date, the holders are entitled to convert the notes either (i) into shares of the company at a conversion price of 1p per share, or (ii) into some of Brainspark's 16.21 per cent holding in ACS.

Other creditors

Other creditors include £160,000 (2002:£nil) in respect of amounts that the Group was committed to pay to GeoSim, an associated undertaking, at 31 December 2003, should the associate require the funds. Under an agreement dated 1 July 2003 the Group had agreed to invest up to a maximum of $ 600,000 in the equity of the associate over the course of the following year raising our stake to 51.75 per cent at 31 December 2003, however share options that are available for exercise in the associate dilute our effective interest to 49.75 per cent at 31 December 2003. The amount invested to 31 December 2003 and the outstanding commitment of £160,000 at that date has been capitalised and results an increase in goodwill on consolidation (note 14).

Other creditors also include a short term loan from a major shareholder (see note 26) which is secured on the assets of its subsidiary, Brainspark Associates Limited.

19 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

Any 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	**2003 £'000**	**2002 £'000**
Cash at bank and in hand	68	964
	68	964

There were no Sterling cash deposits in 2003.

Interest rate risk of financial liabilities

The Group has no formal overdraft or loan facilities with bankers 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 with the exception of a £100,000 loan from Cross Atlantic Technology Fund which bears interest at normal commercial rates and the £50,000 Convertible Bond which bears interest at a fixed rate of 5% per annum, these liabilities are repayable in sterling.

Fair values of financial assets

At 31 December 2003 and 31 December 2002 there was no material difference between the book value and fair value of the financial assets.

Foreign currency exposures

The Group had no material exposure to foreign currency movements at 31 December 2003. The group's functional currency is sterling. The group's monetary assets and liabilities at 31 December 2003 were denominated in sterling with the exception of £160,000 which was denominated in US dollars.

Notes to the financial statements

20 Provision for liabilities and charges

Group	NIC on share warrants £'000	Onerous Property lease £'000	Total £'000
At 1 January 2003	122	970	1,092
Utilised	-	(970)	(970)
At 31 December 2003	122	-	122

Onerous Property Lease

The provision brought forward of £970,000 for the surrender of the onerous lease of the Company's premises has been utilised in full during the year. This included £950,000 for the lease surrender and a further £20,000 in respect of anticipated legal and professional costs. The lease surrender was completed on 13 June 2003.

National Insurance Contributions on Share Warrants

The above provision represents a potential liability to Employers National Insurance on the exercise of share options issued to former employees over shares in the company.

21 Called up share capital

Group and Company	2003 Number	2002 Number	2003 £'000	2002 £'000
Authorised				
Ordinary shares of 1p each	500,000,000	500,000,000	5,000	5,000

Group and Company	2003 Number	2002 Number	2003 £'000	2002 £'000
Allocated, called up and fully paid				
Ordinary shares of 1p each				
At 1 January	187,404,909	123,257,905	1,874	1,233
Issued during the year	4,868,182	64,147,004	49	641
At 31 December	192,273,091	187,404,909	1,923	1,874

Share Capital

On 29 December 2003 the Company issued 4,868,182 shares at 1.1p per share. These shares were issued to F. Gardin 1,659,091, A. Agosta 2,527,273 and E. Burman 681,818 in lieu of unpaid remuneration to 30 September 2003.

Certain Directors hold share warrants in the company to subscribe for shares in the company at prices ranging from 1.1p to 1.32p, this may result in the issue of 4,650,000 1p ordinary shares any time before 31 July 2005.

NOTES TO THE FINANCIAL STATEMENTS

22 Reserves

Group	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	28,558	6,845	(30,586)	4,817
Issue of shares	4	-	-	4
Foreign exchange translation differences	-	(32)	32	-
Retained loss for year	-	-	(2,906)	(2,906)
At 31 December 2003	28,562	6,813	(33,460)	1,915
Company				
At 1 January 2003	28,558	-	(23,538)	5,020
Issue of shares	4	-	-	4
Retained loss for year	-	-	(2,586)	(2,509)
At 31 December 2003	28,562	-	(26,124)	2,515

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 at 1 January 2003 arising on equity accounting for the Group interest in its overseas associates of £32,000 which has been transferred to the profit and loss account.

23 Reconciliation of operating loss to net cash outflow from operating activities

Group	2003 £'000	2002 £'000
Operating loss	(719)	(2,699)
Depreciation charge	226	521
Rental income converted into shares in investments	(75)	-
Fair value of shares issued to directors' in lieu of salary	53	-
Profit on sale of own shares	-	(29)
Profit on sale of investments	(77)	-
Decrease in debtors	641	123
Decrease in creditors	(46)	(337)
(Reduction)/Increase in provisions	(970)	970
Net cash outflow from operating activities	(967)	(1,451)

NOTES TO THE FINANCIAL STATEMENTS

24 Analysis of changes in net debt

Group	At 1 January 2003 £'000	Cash flow £'000	At 31 December 2003 £'000
Cash at bank and in hand	964	(896)	68
Debt due within 1 year	-	(150)	(150)
	964	(1,046)	(82)

25 Operating lease commitments

Operating lease rentals payable during the next year are as follow:	Land and buildings		Office equipment	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Commitments expiring				
Between two and five years	170	-	19	19
After five years	-	534	-	-
	170	534	19	19

26 Related party transactions

Brainspark Associates Limited provided accommodation and management services to its associated undertakings and investee companies 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 £258,000 (2002: £245,000) and the amounts due from investee companies at 31 December 2003 included in debtors were £77,000 (2002: £12,000) inclusive of VAT and net of £83,000 in provisions (2002: £65,000 provision).

The amounts outstanding from associated undertakings at 31 December 2003 were £60,000 (2002: £60,000) after provisions and £360,000 before provisions.

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. 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 was reimbursable by Infusion S.p.A; however during the year interest arising on this transaction of £65,000, has been novated to GeoSim. At 31 December 2003 £65,000 is reimbursable by GeoSim and is included within prepayments and accrued income.

26 Related party transactions (continued)

At 31 December 2003 there was a loan outstanding from Cross Atlantic Technology Fund a major shareholder in the company, of £100,000, the maximum indebtness was £200,000. The loan bears interest at normal commercial rates.

Creditors also include amounts outstanding to both F. Gardin and A. Agosta of £8,000 and £15,000 respectively, in respect of unpaid remuneration.

27 Ultimate controlling party

Prior to 23 June 2003 the immediate and ultimate controlling party was AISoftw@re.
On 23 June 2003, Brainspark's shares which were held by AISoftw@re S.p.A, were distributed by AISoftw@re S.p.A. as a dividend in kind to its shareholders. As a consequence, AISoftw@re is no longer the the immediate and ultimate controlling party of the company.

Notice of 2004 annual general meeting

Notice is hereby given that the 2004 Annual General Meeting of Brainspark plc will be convened at Sion Hall, 56 Victoria Embankment, London EC4 Y0DZ on 29 July 2004 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 2003.

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

3 To re-elect Don Caldwell as a Director.

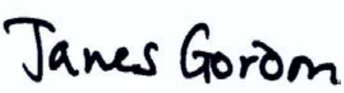
4 To re-elect Alberto Agosta as a Director.

5 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

6 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
Company Secretary

Registered Office
The Lightwell, 12 - 16 Laystall Street, London EC1R 4PF
28 June 2004

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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