



Brainspark Plc  
Interim report, six months  
ended June 2000

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Brainspark



Brainspark is an internet incubator.

We focus on germinating and developing internet-related businesses. We provide the full breadth of support resources needed to help them make the early stage transition from idea conception to established company.

So, one third of what we do is to provide seed capital in exchange for equity. The other two thirds are to provide the fully-serviced physical work environment (e.g. office space; IT support) and the day-to-day management support (e.g. finance; HR; technology expertise) needed to get the business up and running – quickly. In short, we provide a microcosm of all the professional services and creativity that have made Silicon Valley and Silicon Alley so successful in start-up investing.

Our investee businesses may be founded by talented individuals with a great idea for creating a company, or they may be ‘carved out’ from existing corporations wanting to kick-start a new e-commerce business in a specialist and highly-energised environment.

To date\* we have invested in 16 partner companies.

Performance highlights,  
six months to June 2000

- £9.9m invested to date
- Three second-round fundings in the period (and one since)
- £2.4m revaluation gains in the period
- Cash reserves of £14m versus monthly recurring operating costs of £0.5m
- Strategic alliance with Diamond Technology Partners established to develop jointly e-businesses with major corporations

\* To 30 June 2000. This remains unchanged as at 1 Sep 2000.



It gives me great pleasure to introduce Brainspark's first results as a public company.

The financial figures show that even at this early stage the business has achieved strong upward revaluations in its investment portfolio, and retains a secure cash position for further investments and running costs. At the same time we are seeing some encouraging developments in Brainspark's market and competitor environment, which bode well for the next stage of the company's progress.

#### Financial Summary

The company net asset value at 30 June 2000 was £31.1m, up from £7.4m reported for 31 December 1999. This increase includes a positive revaluation on investments of £2.4m. Our policy is to record revaluation gains on investments only when they are objectively demonstrated by an external new funding event. Accordingly, this reported increase relates only to the three businesses which raised a further round of funding in the period – Petspark, Metapack, and Leisurehub. Since 30 June an additional partner company, Easyart, has agreed further funding also, giving an appreciable uplift on Brainspark's investment.

The increase in net asset value includes the net £26.7m of new funds raised in March and April – mostly through our flotation on April 7th and the previous fundraising in March. Day-to-day operating costs have been tightly controlled from the outset and amount to £2.9m for the period. The only other costs in the period are exceptionals relating to National Insurance payments and non-cash provisions relating to the Employee Benefit Trust. These are described more fully in the notes to the Financial Statements.

#### Funds raised, and use, Sep 1999 to June 2000

£34.4m Raised		£34.4m Use	
Other*	£3.5m	Cash balances	£14.0m
Flotation (apr '00)	£18.6m	Employee benefit trust	£5.3m
Mezzanine (mar '00)	£6.2m	Operating costs / Capex	£5.2m
Seed (sep '99)	£6.1m	Investments in partner companies	£9.9m

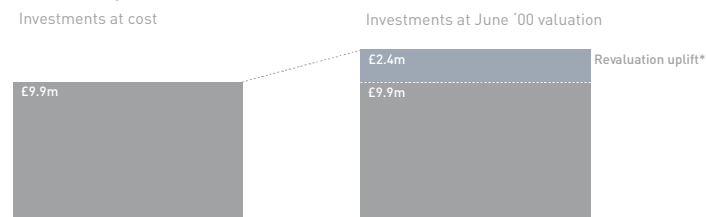
\* Equity for Petspark stake; warrants exercised

Brainspark's cash position remains healthy. As at 30 June the Group had £14m cash balances available for funding further investment projects and operating costs. Total equity invested since inception totalled £9.9m, and the balance of the expenditure comprises investments in our own shares by the Employee Benefit Trust, and our operating costs - including capital expenditure on the fit-out of The Lightwell premises in Clerkenwell.

#### Investments Review

At 30 June Brainspark had invested in sixteen partner companies, eight prior to the April flotation and eight subsequently. The current progress of each of these businesses is detailed in the next section of this report. We have progressively shifted our investment strategy away from the B2C arena towards B2B services (e.g. iProx; Gasworld) and internet infrastructure (e.g. Kerb; EC1 Media) where we believe that the returns will be sustainably attractive. We continue to receive a large number of proposals and our investment focus will evolve on an ongoing basis to reflect what we perceive to be the best available returns for our shareholders.

#### Funds invested, and current valuation



\* Petspark, Metapack, Leisurehub only

We are very pleased by the three second-round financings completed in the May/June period for Petspark, Metapack and Leisurehub, given the tough market conditions of recent months. These have been at an average company revaluation multiple of just over five times and an average Brainspark holding multiple of just under three times (after full dilution). This strong performance has continued since, with the further funding for Easyart being secured in the second week of August, providing a similar valuation uplift on Brainspark's holding.



## 03 Brainspark Plc Chairman's statement

### Brainspark Operations

The company's operating expenditure is under tight day-to-day control, and we have budgeted for it to remain at its current monthly level of £0.5m (before exceptionals) for the rest of this year. Staff expenses comprise the biggest single portion of these costs. With our current complement of 28 we already cover all the critical areas of expertise for rapidly developing web businesses, including general management, project management, content development, marketing, finance, human resources and web technology.

Cash balances, and expenditure rate



The other major element of our operating costs relates to our physical premises - The Lightwell - and its IT infrastructure. A significant proportion of this building is occupied by partner companies, and the remainder houses the Brainspark staff. It is our policy that companies that have completed full second round funding events will move out of The Lightwell as soon as is practicable thereafter. Two of these moves are anticipated to take place by the end of the year. We strongly believe that providing these physical premises combined with a full range of day-to-day support skills significantly enhances the pace of early development of our partner companies. In addition, we are finding this aspect of Brainspark's operations is increasingly differentiating us from our competitors in the eyes of the investment community and also potential partner companies.

### Market Developments

The internet strategic investment market has moved on at an extraordinary pace since the beginning of this year. We continue to develop our plans in response to these external changes, and our current thinking is influenced by three specific trends in particular.

a) Market sentiment is evolving rapidly. This has swung from an extraordinary high at the end of last year to a low in the past few months, and now we believe a new 'third phase' is emerging. This is one of restored enthusiasm for the unique business opportunities offered by the internet (very rapid growth at relatively low capital cost), but tempered by greater selectivity based on time-proven criteria like quality of management team and clarity of profit potential.

b) The competitive arena is maturing. In the past few months several announcements have been made by established 'brand name' consulting and finance houses like Bain, KKR, and Goldman Sachs proposing partnerships to address internet investment opportunities. We have also seen several newly-formed 'incubators' merge or be acquired. Both these developments are very encouraging. The first is welcome endorsement of the scale of the overall market opportunity, and the second is evidence that only the committed and well-capitalised like Brainspark are likely to thrive.

c) 'Corporate carve-outs' are emerging as an attractive opportunity. It is now clear that alongside talented entrepreneurs large corporations have the opportunity to develop valuable internet-based businesses. Typically this involves leveraging greater returns from an existing asset, be it a brand, a customer base, or a strong supply-chain position. Doing this successfully requires the "carving-out" of a new entity - at least temporarily - outside the cultural and procedural constraints of the parent organisation.

Partnering with a 'full-service' incubator like Brainspark is an ideal way to exploit this sort of opportunity. Our first such deal - Globe-rail - was signed in May, in which we are partnering with a corporate in the rail industry together with the e-consulting firm Diamond Technology Partners (DTP). We are excited by its potential and intend to seek more investment opportunities of this nature. This is why we have recently extended our strategic relationship with DTP, as announced last month, whereby Brainspark and DTP will actively seek several 'carve-out' deals per year on which they can work together.

### Outlook for Brainspark

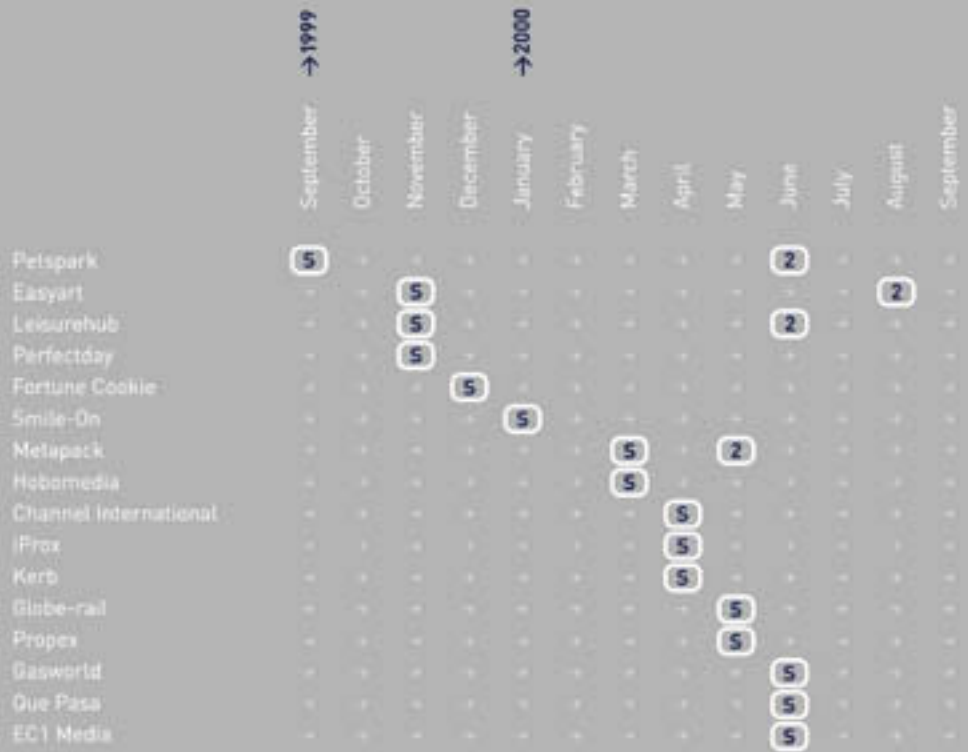
These three market trends are all positive news for Brainspark. They should improve the environment for securing follow-on funding for our existing investments, which has been particularly tough over the past quarter. They should also rationalise the level of competition for attractive new deals. I believe Brainspark will be well-placed in the marketplace for further deals, as only well-capitalised incubators with real infrastructure and skills to offer will represent attractive investment partners.

In summary, I believe that in the short period between its formation and this first set of public results Brainspark has achieved excellent progress. Our focus for the remainder of the year will be on realising the full potential of existing investments and on developing our ability to exploit attractive corporate carve-out opportunities. The company has a strong and well-balanced management team, a strong financial position, and well-established investment and business management disciplines. These features make the outlook for both our existing investments and for new projects very promising.

Barbara S. Thomas Chairman



# 04 Brainspark Plc Partner company portfolio



**S** Seed funding from Brainspark  
**2** Second round funding achieved



# 05 Brainspark Plc

## Our partner companies

### Metapack

Metapack is an e-logistics and e-fulfilment solutions provider.

Forrester estimates B2C trade will be worth £20bn in the UK alone by 2004, and £80bn across W. Europe. But Andersen Consulting have surveyed that 4 out of the top 5 problems experienced by e-shoppers today relate to fulfilment.

Metapack was founded by experienced logistics and technology professionals to provide specialist fulfilment process management from the moment the e-shopper clicks the 'order' button to the point at which the item is delivered to the door.

Metapack has grown rapidly since it first received investment from Brainspark in March this year. It now has sixty employees and in May secured its second round of finance from WPP, the world's largest marketing services group, and Cross Atlantic Capital Partners, the specialist technology investors. In June Metapack won its first major client project – a multi-million pound agreement to provide e-fulfilment services for a leading high street retailer.

### Propex

Propex has been established to provide a B2B market place for commercial property investment professionals. The business has been developed in partnership with a group of major UK commercial real estate owners, which collectively accounts for over half of the UK asset base and a large share of the £11bn transactions per year.

The Propex service will enable buyers to communicate requirements directly to the market; sellers and agents are provided with an efficient marketing mechanism that can link directly into their own Internet, Intranet, and ERP tools.

Propex's revenue model is structured around membership fees, promoter license fees, processing fees and later information and research service fees.

### Gasworld

Gasworld is designed to be an independent exchange for the global industrial gases sector, facilitating the trading of product and surplus capital assets, and also e-procurement. Revenues will derive from transaction commissions and fees for information.

The global market for industrial gases and equipment is currently \$40bn per year. The major players have recognised the potential for internet-based trading to ease the sector's systemic supply/demand inefficiencies, but have made little progress in developing it themselves.

The Gasworld team members have all previously held senior management positions in the industry. Current priorities are securing the partnership of the major gas companies – one is already committed – and completing the technology development in conjunction with Brainspark's strategic partner Axon, the new economy systems integrator.

### Leisurehub

Leisurehub is the only independent online trading community for the worldwide leisure industry. It serves the extensive buying and selling needs of the highly fragmented sectors of Theme and Leisure Parks, Health and Fitness operators, Pubs and Clubs, and Coin-Operated Amusements facilities. Worldwide these sectors make over \$50bn of purchases every year, ranging from major items of capital equipment to small-ticket prizes and giveaways.

Since launch in January, the business has achieved sales of over \$1m, and has received over 7m site 'hits' from 27 countries. In June Leisurehub raised £4m of follow-on funding from BancBoston Capital, the US investment house, and Penton Media Inc., one of the leading global media and exhibitions corporations in the leisure sector. In August Leisurehub opened its first overseas office in San Antonio, Texas.

### EasyArt

EasyArt specialises in providing framed prints and art gifts through the Internet, in-store kiosks and digital TV to consumers and business customers.

Since its Internet launch, at the Ideal Home exhibition in March 2000, EasyArt has sold 1500 pictures. Easyart has also developed a B2B framing and logistics solution for museum, photographic archive and consumer photographic businesses. The first of these deals, with the Victoria & Albert Museum, will be launching in September.

EasyArt secured follow-on funding in August from a group of private investors, to finance its next stage of growth. This will include further developments in its relationship with off-line retailers, following on from a deal with Allders signed in August.

### Perfectday

Perfectday is a wedding business and a joint venture between Brainspark and the owner of AIM Publications, publisher of 'You and Your Wedding' and 'Bride and Groom'. These are numbers one and four respectively in the UK wedding magazine market, and Perfectday has their exclusive endorsement and support.

Over 300,000 weddings take place in the UK each year, with an average spend per event of nearly £14,000, giving an addressable market of over £4bn per year. This expenditure is ideally tapped by the close one-to-one marketing that the web enables because it takes place in a predictable and pre-planned way.

The site went live in June and in addition to e-commerce revenue streams is planning partnerships with companies in the weddings industry.

### Petspark

Petspark is an on-line household pets business, which aims to be Europe's leading resource for pet owners and care givers, offering premium services, information, products, and entertainment.

The UK market alone for pet foods and care products is currently over £2bn per year, and over half of all households own one or more pets. The remainder of the European market represents a further £4bn opportunity.

In June Petspark closed on its second round of funding with investment from Pets.com of the US and Cross Atlantic Capital Partners. Currently it is pursuing a number of opportunities to partner with retail chains to augment further the Petspark community and distribution network.

### Fortune Cookie

Fortune Cookie is a web consultancy and development agency. Its clients include blue chips like the BBC, Reed Elsevier, Royal Bank of Scotland, and Thames Water; several Brainspark partner companies like Leisurehub and Smile-On; and also a number of web start-ups.

This year Fortune Cookie has enjoyed substantial growth. Revenues for the period to June were up fivefold on the previous year, and profit margins are strong. The company now employs 54 staff.

Web development services remain a fast-growing market where demand outstrips supply. The US market for e-commerce integration is now estimated by several sources to be around \$20bn per year and now the UK is growing very rapidly too.





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## Our partner companies

### Hobomedia

HoboMedia's mission is to develop an internet-based business-to-business information platform and commodity marketplace for the global media industry. This sector comprises a small number of very large businesses, and a very large number of small independents which are Hobomedia's target market.

The first platform is HoboMusic.com, launched in May 2000 to the UK music industry's 600,000 participants.

The services offered include on-line booking of studio capacity; a proprietary directory; equipment procurement facilities; and on-line legal and financial services. Revenues derive from subscription fees, transaction fees, and pay per use for certain services.

Once HoboMusic.com is established the business will be developed to address the film and tv markets too.

### Que Pasa

Que Pasa is a new business operating within the dance music and clubbing market. Dance is a genre representing 15 per cent of total global music sales and in the UK alone some 10 million young adults aged 16-30 go clubbing at least once a month.

Que Pasa's Media Solutions subsidiary will harness this valuable but elusive consumer group by aggregating a network of youth culture sites with an aim to build the world's largest targetable community of 'tastemakers'. This network will become a valuable marketing channel for music companies, clubbing brands and blue chips brands targeting the 16-30 market, and Que Pasa will manage clients' use of the network. Alongside Media Solutions Que Pasa plans to launch later this year a new website called Burnitblue.com with the aim of becoming the definitive on-line authority on latest developments in the dance music and clubbing market. The Que Pasa team brings with it extensive off-line experience from the music and publishing worlds in marketing to this demographic group.

### EC1 Media

EC1 Media is a digital production, design, and consultancy business. Its services cover all phases of digital media development from idea through production to the establishment of multimedia platforms. This business has been conceived and developed in-house by Brainspark and is a majority-owned subsidiary. The seed investment was finalised in early September.

The EC1 team brings together a range of relevant experience in cable and satellite broadcasting, TV production, and new media development. Their skills, combined with Brainspark's skills in technology and e-commerce, position the business well to grow on the back of the forthcoming expansion of broadband access and the multitude of new commercial and entertainment opportunities it will bring.

### iProx

iProx is building the basis for a new set of services to mobile phone users, linked to their location and their proximity one to another. In partnership with mobile network operators, service providers and general retailers, iProx will provide relevant and topical information, advertising, promotion and direct selling to individuals and enable contact and meeting between groups of 'buddies'.

iProx services exploit new technologies being adopted over the coming year by all of the US and UK cellular networks, which identify the precise location of each active phone. In parallel, iProx is developing a proprietary 'correlation' system which is fundamental to matching up the locations of large numbers of users simultaneously.

Forrester reports that penetration of mobile phones in Europe has passed 34%; service providers are seeking to offer additional and enhanced services, exploiting text messaging and Internet access. Location and proximity will form a key component of such services.

iProx is currently developing software for a technology demonstrator, to be followed by a pilot operation, and is in advanced discussions with a number of major UK retailers and mobile network operators who will participate in the trial.

### Kerb

Kerb is an innovative new media agency fusing cutting edge technology with street / club culture design. The business focuses on the web development of idiosyncratic brands. Kerb has won many awards for the creativity and originality of its work, most notably Design Week's Best Site Award and Yell's award for Best Site and Best Use of e-Commerce.

Kerb employs 20 staff at present. It's current priority is to continue the growth it has delivered over the past year, and to build its reputation as the leading exponent of street and club culture within the new media design community.

### Smile-on

Smile-on is an independent business to business website for dental professionals.

Increasing commercial demands are being placed on dentists and their practices, and additionally national authorities are considering introducing mandatory continuing professional development (CPD) for all dental practitioners. These legal requirements have been in place in the US for some time and have now been adopted in the UK. Smile-on offers up-to-the-minute news and industry developments, substantial savings on dental consumables through an e-shop and ongoing professional education for dentists and their teams online.

The overall commercial opportunity for Smile-on is substantial. Europe now has 200,000 dentists who spend \$3bn on equipment and consumables purchases per year. Smile-on will charge fees on purchases through the site, and fees on use of CPD materials.

### Channel International

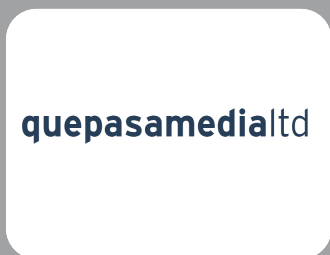
Channel International is a business process outsourcing company focusing on recruitment. It has internet-based tools to manage the process and to link businesses to a wide range of recruitment agencies globally. It's primary focus will be to work with global companies who see the benefit of outsourcing their recruitment management process.

Channel International expects to form 3-5 year agreements with global companies which have significant recruitment requirements. Typically these will be companies experiencing high growth or staff turnover, with high proportions of professional staff.

### Globe-rail

Globe-rail has been established to be a rail industry portal and exchange, which has been conceived and developed in partnership by Brainspark, a rail industry corporation, and Diamond Technology Partners. It represents Brainspark's first 'corporate carve-out' project. Globe-rail will be creating a community for rail expertise and knowledge, a global marketplace for used and surplus rolling stock, and a trading exchange for components and services for maintenance, refurbishment, design and manufacturing.

Rail is a global, \$300 billion industry. Investment is accelerating as rich countries struggle with road congestion and developing countries seek to establish basic infrastructure. The industry is technically and geographically fragmented, but manufacturers, technical advisors and investors are operating on a global level.





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Financial statements  
(unaudited)

Consolidated profit and loss account

	Notes	Six months to 30 June 2000 £000	Period to 31 December 1999 £000
Operating expenses - recurring	3 (b)	(2,868)	(373)
Operating expenses - exceptional	3 (c)	(2,961)	-
Operating loss		(5,829)	(373)
Share of operating losses of associated undertakings	3 (d)	(1,667)	(246)
Total operating loss		(7,496)	(619)
Profit on deemed disposal of interests in associated undertakings	3 (e)	1,221	-
Interest (net)	3 (f)	328	58
Loss on ordinary activities before taxation		(5,947)	(561)
Tax on loss on ordinary activities	3 (g)	(27)	(10)
Retained loss for the period		(5,974)	(571)
Loss per share (p) - basic and diluted	4	(5.6)	(1.4)

Consolidated statement of total  
recognised gains and losses

Loss for the period	(5,974)	(571)
Revaluation of fixed asset investments	719	-
Total recognised gains and losses for the period	(5,255)	(571)





# 08 Brainspark Plc

## Financial statements

### (unaudited)

#### Balance sheets

	Notes	Company 30 June 2000 €000	Group 30 June 2000 €000	Group 31 December 1999 €000
<b>Fixed assets</b>				
Tangible assets		-	812	7
Investment in subsidiary undertaking	2	5,383	-	-
Investments in associated undertakings	2	-	8,304	3,166
Other investments	2	-	1,568	-
Investment in own shares	2	4,342	4,342	-
		9,725	15,026	3,173
<b>Current assets</b>				
Debtors		12,830	2,087	441
Cash at bank and in hand		8,532	14,020	3,647
		21,362	16,107	4,088
<b>Creditors due within one year</b>		(4)	(1,379)	(115)
<b>Net current assets</b>		21,358	14,728	3,973
<b>Total assets less current liabilities</b>		31,083	29,754	7,146
<b>Provisions for liabilities and charges</b>		-	(1,044)	-
<b>Net assets</b>		31,083	28,710	7,146
<b>Capital and reserves</b>				
Called up share capital		1,231	1,231	1
Share premium account	5	26,312	26,312	7,688
Revaluation reserve	5	4,507	719	-
Other reserves	5	-	6,813	-
Profit and loss account	5	(967)	(6,365)	(543)
<b>Equity shareholders' funds</b>		31,083	28,710	7,146

#### Reconciliation of movements in shareholders' funds (note 5(c))

<b>Opening shareholders' funds</b>		-	7,146	-
<b>Movements relating to capital</b>				
Opening capital within subsidiary undertaking		7,402	-	-
New share capital issued		27,543	26,667	7,689
Less: issued for shares in subsidiary undertaking		(876)	-	-
		34,069	26,667	7,689
<b>Profits and losses for period</b>				
Retained loss for period excluding operating expenses-exceptional		(2,548)	(3,013)	(571)
Operating expenses - exceptional	3 (c)	(2,961)	(2,961)	-
Retained loss for period		(5,509)	(5,974)	(571)
Charge for issue of shares at below market value		152	152	28
		(5,357)	(5,822)	(543)
<b>Revaluation of fixed asset investments</b>		2,371	719	-
<b>Closing shareholders' funds</b>		31,083	28,710	7,146



09 Brainspark Plc  
Financial statements  
(unaudited)

Consolidated cash flow statement

	Six months to 30 June 2000 £000	Period to 31 December 1999 £000
<b>Net cash outflow from operating activities</b>	<b>(3,605)</b>	<b>(624)</b>
<b>Returns on investments and servicing of finance</b>		
Net interest received	320	17
<b>Capital expenditure and financial investments</b>		
Purchase of tangible fixed assets	(960)	(14)
Purchase of other investments	(849)	-
Loans to associated undertakings	(274)	-
Investment in own shares	(5,323)	-
<b>Purchase of investments in associated undertakings</b>	<b>(5,603)</b>	<b>(1,889)</b>
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(16,294)</b>	<b>(2,510)</b>
<b>Financing</b>		
Issue of ordinary share capital, less costs	26,667	6,157
<b>Increase in net cash for the period</b>	<b>10,373</b>	<b>3,647</b>

Reconciliation of net cash flow to  
movement in net cash

Net cash at beginning of period	3,647	-
Increase in net cash in the period	10,373	3,647
Net cash at end of period	14,020	3,647

Reconciliation of operating loss to net  
cash outflow from operating activities

Total operating loss	(7,496)	(619)
Share of operating losses of associated undertakings	1,667	246
Depreciation	155	7
Provision against investment in own shares	981	-
(Increase) in debtors	(1,373)	(401)
Increase in creditors	1,265	115
Charge for issue of shares at below market value	152	28
Increase/(decrease) in provisions	1,044	-
<b>Net cash outflow from operating activities</b>	<b>(3,605)</b>	<b>(624)</b>



# 10 Brainspark Plc Notes

## 1. Basis of preparation

**Group re-organisation** The company was incorporated on 6 February 2000. On 1 March 2000 the company issued 8,762,000 10 pence shares (subsequently subdivided into 87,620,000 1 penny shares) pursuant to the acquisition of the entire issued share capital of Brainspark Associates Limited. The company has taken advantage of merger relief in respect of this acquisition and accordingly no share premium was recorded relating to the issue of those shares.

**Comparatives** As the company was formed during the period, there are no comparative figures for 31 December 1999. The comparative amounts shown for the group are those for Brainspark Associates Ltd, treating the associated undertakings as consolidated from the date that the investment was made.

**Associated undertakings** Investments in associated undertakings are carried at cost or valuation. Cost is based on the fair value of the consideration paid for the investment, including acquisition costs. Where a different valuation is demonstrated by a transaction in the investee's shares, the group's investment is carried at a corresponding revalued amount.

In the consolidated financial statements the investments in associated undertakings comprise the group's share of net assets together with unamortised goodwill.

**Other investments** Investments in unlisted investments are carried at cost or valuation. Investments in subsidiaries are carried at underlying net asset value. Investments in own shares are carried at cost less a provision for any reduction in market value.

**Goodwill** 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, has been capitalised and included within investments in associated undertakings in the consolidated balance sheet. It is eliminated by amortisation through the profit and loss account over its useful economic life.

## 2. Investments

	Company Investment in subsidiary undertaking £000	Group Investments in associated undertakings £000	Other investments £000	Company and Group Investment in own shares £000
<b>Cost</b>				
At 31 December 1999	-	3,422	-	-
Additions	876	5,603	849	5,323
At 30 June 2000	876	9,025	849	5,323

### Revaluations and provisions

At 31 December 1999	-	-	-	-
Arising in the period	4,507	-	719	(981)
At 30 June 2000	4,507	-	719	(981)

### Share of net assets

At 31 December 1999	-	402	-	-
Additions	-	1,453	-	-
Share of profits/(losses) arising in period	-	(1,045)	-	-
Profit on deemed disposal of interests in associated undertakings (note 3(e))	-	1,221	-	-
At 30 June 2000	-	2,031	-	-

### Goodwill

At 31 December 1999	-	2,764	-	-
Arising in period	-	4,150	-	-
Amortisation charged in the period	-	(641)	-	-
At 30 June 2000	-	6,273	-	-

### Net book amount

At 31 December 1999	-	3,166	-	-
At 30 June 2000	5,383	8,304	1,568	4,342

The investments held by the company's subsidiary were revalued in the accounts of the subsidiary at £12,245,000 as at 30 June 2000. The revaluation gain of £2,371,000 is included in the revaluation of the company's investment in subsidiary as shown in note 5(c).

At the time of flotation a loan of £5.3m was made to an Employee Benefit Trust, which invested the proceeds wholly in shares in the company. The trust was established to cover actual and potential national insurance liabilities arising on the exercise of warrants held by employees and partner company managers at the time of flotation. A full discussion is presented in the flotation prospectus. This arrangement is treated as an investment in the company's own shares. The provision arises from the reduction in the company's share price between 125p at flotation and 105.5p at 30 June. In the event that the mid-market share price remains at 88.5p, the level as at 31 August, a further provision amounting to £717,000 would be required. However the provision for National Insurance referred to in note 3(c) would correspondingly be reduced by £303,000.

## 3. Profit and loss account

	Six months to 30 June 2000 £000	Period to 31 December 1999 £000
<b>(a) Group turnover</b>		
Group turnover and share of associates	383	83
Less: share of associates	(383)	(83)
Turnover	-	-
<b>(b) Operating expenses - recurring</b>		
Staff expenses	1,143	196
Premises and IT costs	830	106
Other expenses	895	71
Total	2,868	373

Premises costs include the whole costs of The Lightwell building, of which a significant proportion is occupied by companies in which the group has invested for which a charges is levied after second round funding. The remainder is occupied by Brainspark Plc and subsidiaries.

### (c) Operating expenses - exceptional

National Insurance paid and provided relating to warrants	(1,980)	-
Provision against investment in own shares (see note 2)	(981)	-
	(2,961)	-

### (d) Share of associated undertakings' operating profits/(losses)

	Six months to 30 June 2000 £000	Period to 31 December 1999 £000
Share of operating profits/(losses)	(1,026)	(80)
Amortisation of goodwill	(641)	(166)
Total	(1,667)	(246)

### (e) Exceptional item - profit on deemed disposal of interests in associated undertakings

This profit represents the net increase in the group's share of the net assets of two associated undertakings, Leisurehub and Petspark, when they raised new capital from third parties. The group did not acquire additional shares in those undertakings and as a result its shareholding was diluted. In accordance with FRS9 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 period. Metapack, which also raised capital from third parties and the group, was not treated as an associated undertaking and accordingly no such gain arose in the consolidated profit and loss account.

### (f) Net interest

Group	320	58
Share of associated undertakings	8	-
Total	328	58

### (g) Tax

Group	-	-
Share of associated undertakings	(27)	(10)
Total	(27)	(10)

## 4. Loss per share

The loss per share is based on the loss after tax for the period of £5,974,000 (period to 31 December 1999 £571,000) and a weighted average number of shares in issue of 106,351,802 (period to 31 December 1999 41,889,851). In calculating the weighted average number of shares in issue it has been assumed that the number of shares in issue immediately after the group reorganisation had been in issue since 22 September 1999, when substantially all the share capital of Brainspark Associates Limited was issued. For the period 3 June 1999 to 21 September 1999 it has been assumed that 200,000 shares were in issue, being the number of shares in the company, following the group reorganisation, that correspond with the issued share capital at that time.

## 5. Reserves

	Share premium £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
<b>(a) Group</b>				
At 31 December 1999	7,688	-	-	(543)
Effect of group re-organisation	(7,688)	-	6,813	-
Arising on issue of share capital	26,312	-	-	-
Revaluation of investments	-	719	-	-
Issue of shares at below market value	-	-	-	152
Retained loss for period	-	-	-	(5,974)
At 30 June 2000	26,312	719	6,813	(6,365)

### (b) Company

Arising on issue of share capital	26,312	-	-	-
Revaluation of investment in subsidiary	-	4,507	-	-
Retained loss for period	-	-	-	(967)
At 30 June 2000	26,312	4,507	-	(967)

(c) The company's investment in subsidiary is held at net asset value. Accordingly the movements in the reserves of the company's subsidiary are reflected in the revaluation of the company's investment in subsidiary. Such movements are included in the following amounts, comprising the revaluation of the investment in subsidiary, which are included in the reconciliation of movements in shareholders' funds for the company:

	Company £000
<b>Movements relating to capital</b>	
Opening capital within subsidiary	7,402
Less: share capital issued for shares in subsidiary undertaking	(876)
<b>Profits and losses for period</b>	
Retained loss for period excluding operating expenses-exceptional	(2,562)
Operating expenses - exceptional	(1,980)
Issue of shares at below market value	152
<b>Revaluation of investments</b>	2,371
Revaluation of investment in subsidiary undertaking	4,507

6. The financial statements for the six months ended 30 June 2000 have not been audited. The financial information set out herein for the period to 31 December 1999 does not comprise statutory accounts within the meaning of the Companies Act 1985. The statutory accounts of Brainspark Associates Limited for the period ended 31 December 1999, incorporating an unqualified auditors' report, have been delivered to the Registrar of Companies. A copy of this announcement is being sent to all shareholders and further copies may be obtained from the company's office: The Lightwell, 12-16 Laysall Street, London EC1R 4PF.



## Enquiries

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