

# Brainspark

BRAINSPARK PLC INTERIM RESULTS FOR  
THE SIX MONTHS ENDED 30 JUNE 2001.

BRAINSPARK IS AN INCUBATOR FOCUSED ON  
GERMINATING AND DEVELOPING TECHNOLOGY  
AND INTERNET-RELATED BUSINESSES.

## HIGHLIGHTS -

- TWO FOLLOW-ON FUNDING ROUNDS IN THE PERIOD OF £1.05 MILLION INTO SMILE-ON AND £3.25 MILLION INTO METAPACK
- CASH RESERVES OF £7M
- CONSOLIDATED NET-ASSET VALUE OF £12.4 MILLION

“The changes outlined in Brainspark’s Financial Statements for the year ended 31 December 2000, including my own appointment, have been implemented. I am glad to say that Brainspark’s underlying operating cash requirement is now broadly in line with the level forecast at that time. However, the mid-market price at 30 June 2001 of 7.0p valued the company’s issued share capital at £8.6m against a consolidated net asset value of £12.4m. I believe that this insufficiently values the company’s investment portfolio and the future potential of the business.

Discussions with a number of parties which may or may not lead to an offer being made to the Company are ongoing and shareholders will be kept informed of developments.”

#### D. Caldwell - Chairman

#### ENQUIRIES

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 JASPER JUDD (CHIEF FINANCIAL OFFICER)  
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In her statement issued with Brainspark’s Financial Statements for the year ended 31 December 2000, my predecessor Barbara Thomas announced various operational changes within Brainspark taken in the light of the negative sentiment afflicting the technology investment market, particularly that for early stage companies.

Those changes, including my own appointment, have been implemented, and I am glad to say that Brainspark’s underlying operating cash requirement is now broadly in line with the level forecast at that time. The Board, however, continues to look carefully at all ways in which the company’s value can be preserved and enhanced.

#### Financial Summary

The consolidated net asset value at 30 June 2001 was £12.4m, down from £20.5m at 31 December 2000. Of the fall of £8.1m, £2.3m is attributable to recurring operating expenses and the remainder (£5.8m) principally to exceptionals and share of results of associates, net of interest. The fall in Brainspark’s share price to a bid price of 6.0p on 30 June 2001 contributed £2.0m to the above figure of £5.8m, being principally in respect of non-cash provisions relating to the Employee Benefit Trust.

#### Investments Review

If anything, market conditions have been worse than those most commentators had predicted, and it has been extremely hard for early stage technology businesses to raise further funds. Accordingly, we were very pleased that both Metapack and Smile-On successfully completed financings of £3.25m and £1.05m respectively in the period. Unfortunately, the period also involved the closures of EC1 Media and Gasworld, and (in July 2001) the sale of the Petspark and the Leisurehub businesses. Provisions for disposal have also been made against Globe-Rail and iProx.

On the positive side, Propex has made real progress towards becoming the key marketplace for major UK commercial property deals, having achieved the buy-in of some of the biggest players in the sector.

The Usability Company, for which Brainspark provided seed funding in February 2001, has had a very encouraging start and looks set to become imminently self-sustaining. Brainspark’s remaining active investments, Easyart, Fortune-Cookie, Kerb, Que Pasa Media and Traderserve are all at important stages in their development and the next few months should tell us much about their long-term prospects.

#### Outlook

The mid-market price at 30 June 2001 of 7.0p valued the company’s issued share capital at £8.6m against a consolidated net asset value of £12.4m. I believe that this insufficiently values the company’s investment portfolio and the future potential of the business. Your Board remains committed to looking for value-creation opportunities and with £7.0m in cash at the end of June 2001, Brainspark remains positioned to withstand an extremely difficult market environment.

Shareholders may be aware that, on 30 July 2001, the Company announced that it was in the early stages of discussions with a number of parties, which may or may not lead to an offer being made for the Company. These discussions are ongoing and shareholders will be kept informed of developments.

D. Caldwell - Chairman

04 BRAINSPARK PLC  
CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>Turnover</b>	2a	-	-	-
Net operating expenses - recurring		(2336)	(2868)	(5644)
Net operating expenses - exceptional	2b	(3100)	(2961)	(4054)
<b>Total net operating expenses/group operating loss - continuing</b>		<b>(5436)</b>	<b>(5829)</b>	<b>(9698)</b>
Share of operating loss of associated undertakings	3	(1873)	(1667)	(4548)
<b>Total operating loss : group and share of associated undertakings</b>		<b>(7309)</b>	<b>(7496)</b>	<b>(14246)</b>
<b>Exceptional items:</b>				
Profit on deemed disposal of interests in associated undertakings	2c	370	1221	1379
Loss on disposal and provisions for loss on disposal of interests in associated and subsidiary undertakings	2c	(1632)	-	(2433)
<b>Loss on ordinary activities before interest</b>		<b>(8571)</b>	<b>(6275)</b>	<b>(15300)</b>
Net interest receivable		251	328	736
<b>Loss on ordinary activities before taxation</b>		<b>(8320)</b>	<b>(5947)</b>	<b>(14564)</b>
Tax on loss on ordinary activities		-	(27)	(27)
<b>Loss on ordinary activities after taxation</b>		<b>(8320)</b>	<b>(5974)</b>	<b>(14591)</b>
Equity minority interests		34	-	37
<b>Retained loss for the financial period</b>		<b>(8286)</b>	<b>(5974)</b>	<b>(14554)</b>
<b>Loss per 1p ordinary share - basic and diluted</b>	4	<b>(6.7)p</b>	<b>(5.6)p</b>	<b>(14.9)p</b>

CONSOLIDATED STATEMENT OF TOTAL  
RECOGNISED GAINS AND LOSSES

Loss for the financial period	(8286)	(5974)	(14554)
Revaluation of fixed asset investments	34	719	719
<b>Total recognised gains and losses for the period</b>	<b>(8252)</b>	<b>(5255)</b>	<b>(13835)</b>

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

05 BRAINSPARK PLC  
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	At 30 June 2001 £000	At 30 June 2000 £000	At 31 December 2000 £000
<b>Fixed assets</b>				
Tangible assets		943	812	1135
Investments in associated undertakings	5	2201	8304	4987
Other investments	6	1602	1568	1568
Investment in own shares	7	253	4342	2445
		<b>4999</b>	<b>15026</b>	<b>10135</b>
<b>Current assets</b>				
Debtors		1024	2087	1609
Cash at bank and in hand		6978	14020	9766
		<b>8002</b>	<b>16107</b>	<b>11375</b>
<b>Creditors : amounts falling due within one year</b>		<b>(469)</b>	<b>(1379)</b>	<b>(586)</b>
<b>Net current assets</b>		<b>7533</b>	<b>14728</b>	<b>10789</b>
<b>Total assets less current liabilities</b>		<b>12532</b>	<b>29754</b>	<b>20924</b>
<b>Provisions for liabilities and charges</b>		<b>(153)</b>	<b>(1044)</b>	<b>(385)</b>
<b>Net assets</b>		<b>12379</b>	<b>28710</b>	<b>20539</b>
<b>Capital and reserves</b>				
Called up share capital		1233	1231	1233
Share premium account		26442	26312	26442
Revaluation reserve		753	719	719
Other reserves		6813	6813	6813
Profit and loss account (deficit)		(22862)	(6365)	(14702)
<b>Total equity shareholders' funds</b>		<b>12379</b>	<b>28710</b>	<b>20505</b>
Equity minority interests		-	-	34
<b>Capital employed</b>		<b>12379</b>	<b>28710</b>	<b>20539</b>

RECONCILIATION OF MOVEMENTS IN  
CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS

Loss for the period	(8286)	(5974)	(14554)
New share capital issued for cash	-	26667	26799
Revaluation of fixed asset investments	34	719	719
Charge for issue of shares at below market value	126	152	395
<b>Net addition to shareholders' funds</b>	<b>(8126)</b>	<b>21564</b>	<b>13359</b>
Opening shareholders' funds	20505	7146	7146
<b>Closing shareholders' funds</b>	<b>12379</b>	<b>28710</b>	<b>20505</b>

06 BRAINSPARK PLC  
CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Notes	Six months to 30 June 2001 £000	Six months to to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>Net cash outflow from operating activities</b>	8	(2248)	(3605)	(6260)
<b>Returns on investments and servicing of finance</b>				
Interest received (net)		237	320	723
<b>Net cash inflow from returns on investments and servicing of finance</b>		237	320	723
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(5)	(960)	(1392)
Purchase of other investments		-	(849)	(849)
Purchase of own shares		-	(5323)	(5322)
Disposal of fixed assets		2	-	-
<b>Net cash outflow from capital expenditure and financial investment</b>		(3)	(7132)	(7563)
<b>Acquisitions and disposals</b>				
Purchase of subsidiary undertaking		-	-	(550)
Cash acquired with subsidiary undertaking		-	-	550
Closure of subsidiary undertaking		(49)	-	-
Purchase of investments in associated undertakings		(310)	(5603)	(6800)
Loans to associated undertakings		(415)	(274)	(780)
<b>Net cash outflow from acquisitions and disposals</b>		(774)	(5877)	(7580)
<b>Net cash outflow before financing</b>		(2788)	(16294)	(20680)
<b>Financing</b>				
Issue of ordinary share capital		-	26667	26799
<b>Net cash inflow from financing</b>		-	26667	26799
<b>(Decrease) increase in net cash for the period</b>		(2788)	10373	6119
<b>Reconciliation of net cash flow to movement in net cash</b>				
Net cash at beginning of period		9766	3647	3647
(Decrease) increase in net cash in the period		(2788)	10373	6119
<b>Net cash at end of period</b>		6978	14020	9766

07 BRAINSPARK PLC  
NOTES TO THE INTERIM FINANCIAL STATEMENTS

**1. Basis of preparation**

The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's 2000 Annual Report and Accounts. Fixed annual charges are apportioned to the interim period on the basis of time elapsed and other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts. The financial information contained in this interim statement is unaudited and does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The comparative information for the year ended 31 December 2000 is an abridged version of the statutory accounts for that year and those accounts, upon which the auditors issued an unqualified opinion, have been filed with the Registrar of Companies.

**2. Profit and loss account**

	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>a) Turnover</b>			
Group turnover including share of associated undertakings	495	383	1239
Less: share of associated undertakings	(495)	(383)	(1239)
	-	-	-

**b) Net operating expenses - exceptional**

National Insurance on warrants	242	(1980)	(1177)
Provision against investment in own shares (note 7)	(2192)	(981)	(2877)
Provisions against loans to associated undertakings	(450)	-	-
Goodwill valuation adjustment on associated undertakings	(240)	-	-
Restructuring and closure costs	(460)	-	-
	(3100)	(2961)	(4054)

**c) Exceptional items**

Profit on deemed disposal of interests in associated undertakings	370	1221	1379
Loss on disposal and provisions for loss on disposal of interests in associated and subsidiary undertakings	(1632)	-	(2433)

The profit on deemed disposal of interests in associated undertakings comprises principally the profit on the dilution of the Group's interest in Smile-on when it raised second round funding from third parties. The losses on disposal and provisions for losses on disposal of interests in associated and subsidiary undertakings comprise principally Leisurhub, Gasworld, Globe Rail, iProx, EC1 Media and a further provision in respect of the disposal of Perfectday which took place during the year ended 31 December 2000.

	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>3. Share of operating loss of associated undertakings</b>			
Share of operating loss of associated undertakings	1099	1026	2680
Amortisation of goodwill on acquisition	774	641	1868
	1873	1667	4548

**4. Loss per 1p ordinary share**

	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
Loss attributable to ordinary shareholders	(8286)	(5974)	(14554)
Effect of dilutive share options	-	-	-
Adjusted loss	(8286)	(5974)	(14554)
Weighted average number of ordinary shares	123258	106352	97555
Dilutive share options	1817	9713	8318
Adjusted weighted average number of ordinary shares	125075	116065	105873
<b>Basic loss per share</b>	(6.7)p	(5.6)p	(14.9)p
<b>Diluted loss per share</b>	(6.7)p	(5.6)p	(14.9)p

The Group has one class of dilutive potential ordinary shares being those share options granted where the exercise price is less than the average market price of the Company's ordinary shares during the period. However these are not considered dilutive as their conversion to ordinary shares would reduce the net loss per share from continuing operations.

5. Investments in associated undertakings	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>Share of net assets</b>			
At 1 January	1084	402	402
Additions	310	1453	1912
Disposals	(371)	-	44
Share of profit (loss) for the period	(1099)	(1045)	(2653)
Profit on deemed disposals	370	1221	1379
At period end	<u>294</u>	<u>2031</u>	<u>1084</u>
<b>Goodwill</b>			
At 1 January	3323	2764	2764
Arising on acquisition	611	4150	4975
Disposals	(1013)	-	(2548)
Valuation adjustment	(240)	-	-
Amortisation of goodwill	(774)	(641)	(1868)
At period end	<u>1907</u>	<u>6273</u>	<u>3323</u>
<b>Loans to associated undertakings</b>			
At 1 January	580	-	86
Additions	415	-	780
Loans capitalised	(400)	-	(86)
Provisions against loans and disposals	(595)	-	(200)
At period end	<u>-</u>	<u>-</u>	<u>580</u>
<b>Net book amount at period end</b>	<u>2201</u>	<u>8304</u>	<u>4987</u>

6. Other investments	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>Cost or valuation</b>			
At 1 January	1568	-	-
Additions	-	849	849
Revaluation	34	719	719
At period end	<u>1602</u>	<u>1568</u>	<u>1568</u>

Other investments comprise interests in Metapack and Propex at valuation.

7. Investment in own shares	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
<b>Cost or valuation</b>			
At 1 January	2445	-	-
Additions	-	5322	5322
Provision against investment	(2192)	(980)	(2877)
At period end	<u>253</u>	<u>4342</u>	<u>2445</u>

The investment in own shares represents a loan of £5.3 million made to an Employee Benefit Trust which invested the proceeds wholly in 4,236,329 company shares. The trust was established to cover actual and potential national insurance liabilities on the exercise of warrants held by employees and partner company managers at the time of the flotation. The provision arises from the reduction in the company's share price from 125p at flotation to the bid price of 6.0p at 30 June 2001.

8. Reconciliation of operating loss to net cash outflow from operating activities	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year ended 31 December 2000 £000
Operating loss	(5436)	(5829)	(9698)
Depreciation charge	191	155	257
Goodwill written off on acquisition of subsidiary undertaking	-	-	71
Goodwill valuation adjustment on associated undertakings	240	-	-
Provision against loans to associated undertakings	450	-	-
Provision against investment in own shares	2192	981	2877
Loss on disposal of fixed assets	-	-	7
Decrease (increase) in debtors	344	(1373)	(1025)
(Decrease) increase in creditors	(123)	1265	471
Charge for issue of shares at below market value	126	152	395
(Decrease) increase in provisions	(232)	1044	385
	<u>(2248)</u>	<u>(3605)</u>	<u>(6260)</u>