

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.**

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 ("POS Regulations"), has been delivered to the Registrar of Companies in accordance with regulation 4(2) of those regulations.

Application has been made for the whole of the ordinary share capital of the Company in issue immediately following the Placing to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. Further, the London Stock Exchange has not itself approved the contents of this document. The Ordinary Shares are not dealt on any other recognised investment exchange and no other such applications have been made.

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# **BRAINSPARK PLC**

**(Incorporated in England and Wales with Registered No. 3926192)**

**Placing of 16,000,000 Ordinary Shares**

**at 125p per share**

**and**

**Admission to trading on**

**the Alternative Investment Market**

**Nominated Adviser and Nominated Broker**

**J. Henry Schroder & Co. Limited**

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The Placing is conditional, *inter alia*, on Admission taking place on or before 8.30 a.m. on 7 April 2000 (or such later date as the Company and Schroders may agree). The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

Schroders, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting as the Company's nominated adviser in connection with the proposed admission of the Ordinary Shares to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Schroders as to any of the contents of this document. Schroders will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisitions of shares in the Company.

**Brainspark plc is a recently formed company with a short trading record. The attention of investors is drawn to the section entitled "Risk Factors" set out on page 20 of this document.**

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## DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of all the Ordinary Shares (including the Placing Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“Advisory Board”	the advisory board of the Company, details of whose members are set out in Section 5 of Part I of this document
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules set out in Chapter 16 of the Rules of the London Stock Exchange
“Articles of Association” or “Articles”	the articles of association of the Company
“BAL”	Brainspark Associates Limited
“Board” or “Directors”	the directors of the Company, whose names are set out on page 6
“Brainspark” or “Company”	Brainspark plc
“CREST”	relevant system in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
“Cross Atlantic”	Cross Atlantic Technology Fund L.P.
“EasyArt”	EasyArt Limited, the wholly owned subsidiary of Kalesta Limited
“Egon Zehnder”	Egon Zehnder International
“Employees”	those employees of the Group at the date of this document who hold Warrants
“Fortune Cookie”	Fortune Cookie (UK) Limited
“Founders”	Stewart Dodd, Noah Freedman and Richard Davidson
“Group”	the Company and BAL
“Hobomedia”	Hobomedia.com Limited
“Key Partner Company Managers”	the senior managers of the Partner Companies, whose names are set out in paragraph 5(d) of Part IV of this document
“Landlord”	Laystall House Limited
“Lease”	the lease of The Lightwell to be granted by the Landlord to BAL as described in paragraph 9(a) of Part IV
“Leisurehub”	Leisurehub.com Limited
“London Stock Exchange” or “LSE”	London Stock Exchange Limited
“Metapack”	Metapack Limited
“Ordinary Shares”	ordinary shares of one penny each in the capital of the Company
“Official List”	the official list of the London Stock Exchange
“Partner Companies”	the companies in which the Group has made an equity investment
“perfectday”	Wowed Limited (which is intended will trade as perfectday)
“Petspark”	Petspark Limited
“Placees”	all or any of the subscribers for the Placing Shares pursuant to the Placing

“Placing Agreement”	the conditional agreement dated 23 March 2000 between (1) the Company (2) the Directors (as therein defined) (3) Richard Davidson and (4) Schroders relating to the Placing and Admission as described in paragraph 9 of Part IV
“Placing Price”	125 p per Placing Share
“Placing Shares”	the 16,000,000 Ordinary Shares to be issued pursuant to the Placing
“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement described in this document
“POS Regulations”	the Public Offers of Securities Regulations 1995
“Schroders”	J. Henry Schroder & Co. Limited
“Series A Warrants”	the warrants to subscribe for Ordinary Shares at an exercise price of 9.53p per share constituted by a warrant instrument dated 1 March 2000
“Series B Warrants”	the warrants to subscribe for Ordinary Shares at an exercise price of 57.1p per share constituted by a warrant instrument dated 1 March 2000
“Significant Shareholders”	Diamond Technology Partners Incorporated, Inverness Capital, Tom Singh, Merrill Lynch Mercury Asset Management, NVision, Top Technology and Cross Atlantic
“Smile-on”	Smile-on Limited
“The Lightwell”	the Company's new offices at Lightwell House, 12-16 (even), Laystall Street, London EC1
“Top Technology”	Top Technology Limited acting on behalf of HATT III L.P. and Uni-invest Special Aktier
“UK”	the United Kingdom of Great Britain and Northern Ireland
“Uncertificated” or “Uncertificated Form”	recorded in the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which by virtue of the CREST Regulations may be transferred by means of CREST
“USA” or “US”	the United States of America, its territories and possessions, any state of the United States and any areas subject to its jurisdiction or under its control and the District of Columbia
“Warrantholders”	the holders of Warrants
“Warrants”	the Series A Warrants and the Series B Warrants

## GLOSSARY OF TERMS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“b2b”	Business to Business
“b2c”	Business to Consumer
“broad band”	a high-speed, high-capacity transmission channel capable of supporting and carrying multiple frequencies, allowing the transmission of video, voice and data simultaneously
“Cat 5”	Category 5 unshielded twisted pair cable, providing ethernet connectivity at a data rate of at least 100 megabits per second
“e-commerce”	a general term used to describe the various ways of enabling transactions (usually in the form of purchase of goods and services) to be effected over the internet
“e-tail”	retail activities that take advantage of the medium of the internet
“ERP”	Enterprise Resource Planning
“incubator”	provider of seed capital, physical infrastructure and other support services to internet businesses at a very early stage in their development
“MP3”	MPEG Layer 3, a digital audio compression standard capable of 10:1 compression with no noticeable loss in quality, typically used to distribute music over the Internet
“portal”	a web site that serves as a starting point to other destinations on the world wide web

## DIRECTORS AND ADVISERS

<b>Directors</b>	Barbara Singer Thomas ( <i>Non-executive Chairman</i> ) Stewart Michael Dodd ( <i>Chief Executive Officer</i> ) Noah Freedman ( <i>Chief Technology Officer</i> ) Alwyn Frank Welch ( <i>Chief Operating Officer</i> ) Martin Guy Fiennes ( <i>Non-executive Director</i> ) Sheryl Daniels-Young ( <i>Non-executive Director</i> )
<b>Secretary</b>	Noah Freedman  all of  MWB Business Centre 77 Oxford Street London W1R 1RB
<b>Registered Office</b>	10 Old Bailey London EC4M 7NG
<b>Website</b>	<a href="http://www.brainspark.com">www.brainspark.com</a>
<b>Nominated Adviser and Nominated Broker</b>	<b>J. Henry Schroder &amp; Co. Limited</b> 120 Cheapside London EC2V 6DS
<b>Reporting Accountants</b>	<b>PricewaterhouseCoopers</b> 1 Embankment Place London WC2N 6NN
<b>Auditors</b>	<b>PricewaterhouseCoopers</b> 9 Greyfriars Road Reading Berkshire RG1 1JG
<b>Solicitors to the Company</b>	<b>Gouldens</b> 10 Old Bailey London EC4M 7NG
<b>Solicitors to the Nominated Adviser</b>	<b>Lovells</b> 65 Holborn Viaduct London EC1A 2DY
<b>Bankers</b>	<b>Barclays Bank PLC</b> Marble Arch Business Centre 131 Edgware Road London W2 2HT
<b>Registrars</b>	<b>IRG plc</b> Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

## PLACING STATISTICS

Price	125p
Number of Ordinary Shares being placed	16,000,000
Number of Ordinary Shares in issue following the Placing	123.1 million
Market capitalisation at the Placing Price	£153.9 million
Net proceeds of the Placing received by the Company <sup>(1)</sup>	£18.4 million

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(1) The estimated net proceeds receivable by Brainspark are stated after deduction of the estimated commissions and other fees and expenses of the Placing (which are payable in cash) of £1.6 million (excluding VAT).

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Admission Document	23 March 2000
Admission and dealings in the Ordinary Shares to commence	7 April 2000
Settlement of shares through CREST	7 April 2000
Despatch of definitive share certificates	14 April 2000

## KEY INFORMATION

The following information is derived from and should be read in conjunction with the full text of this document.

### Business summary

Brainspark is an incubator business focused on germinating and developing UK and European internet related businesses operating in the areas of business-to-business, business-to-consumer, application provision and tools. Brainspark currently has eight Partner Companies.

To date, Brainspark has completed two rounds of funding and its present investors include three venture capital funds (one UK based, two US based), a US based e-commerce services firm, a leading fund management group and Tom Singh (a UK based entrepreneur).

### Business strengths

The Directors believe that the key strengths of Brainspark are:

- **Partner Companies:** the Brainspark portfolio offers a wide range of business models – e-consulting, pet e-tail, leisure industry, arts e-tail, dentistry, weddings and internet logistics – at differing stages of maturity.
- **Management team:** Brainspark's senior management team, all of whom hold significant equity in the Company, incorporates experience in investment banking, venture capital and technology /internet businesses.
- **Brainspark environment:** Brainspark will move shortly to a physical base of 18,300 square feet with sufficient space for between 10 to 12 Partner Companies, over 220 work stations and an environment that will encourage formal and informal interaction amongst the Partner Companies, technology partners and Brainspark executives. The Key Partner Company Managers all hold Ordinary Shares in Brainspark, motivating them to act in the interests of the Company as a whole.
- **Network and contacts:** in addition to the contacts established by the management and its investors, the Advisory Board includes experienced individuals from within the technology sector providing a source of knowledge and contacts to assist in the development of Partner Companies and provide a potential source of new investment opportunities.

### Reasons for listing

The purpose of the Placing is to raise funds to invest in and develop further innovative concepts which the Directors believe can become successful commercial enterprises. Funds are also required to continue to raise the level of in-house expertise and to look at initiatives to build the Brainspark brand outside the UK, particularly in continental Europe.



# PART I

## INFORMATION ON THE COMPANY

### I. Introduction

Brainspark is an incubator business focused on germinating and developing UK and European internet-related businesses operating in the areas of business-to-business ("b2b"), business-to-consumer ("b2c"), application provision and tools. The business was established in June 1999 by Stewart Dodd, Noah Freedman and Richard Davidson and in September 1999, Top Technology and Cross Atlantic each invested \$5 million, valuing the business at \$15 million. Since that date, Brainspark has developed a portfolio of eight companies ("Partner Companies"), as follows: Petspark (a European pet portal), EasyArt (a one-stop internet art shop), Fortune Cookie (a web design and development company), Leisurehub (a portal site and market place for the leisure industry), perfectday (a wedding portal site), Smile-on (a European dental community), Hobomedia (an internet based digital assistant) and Metapack (a provider of one-stop supply chain solutions for e-tailers).

On 11 February 2000, it was announced that Brainspark had agreed terms for its second round funding to raise approximately £6 million, valuing the enlarged business at approximately £56 million. The investment came from members of the Advisory Board and the following five strategic investors: Diamond Technology Partners Inc. (a US e-commerce consultancy), Inverness Capital (a US venture capital firm), Tom Singh (the founder of the New Look women's fashion chain), Merrill Lynch Mercury Asset Management (an investment manager) and NVision (a UK e-commerce consultancy). This funding round was completed on 3 March 2000.

### 2. The business

#### 2.1 *Concept*

Brainspark aims to provide a one-stop solution for start up and recently formed internet companies offering a range of physical incubator services designed to encourage and protect growth as well as providing access to the expertise of Brainspark's management team and its substantial network of contacts.

#### 2.2 *The Brainspark environment*

The Directors believe that the Company's offices are critical in nurturing a creative and cooperative environment in which ideas and experience are freely exchanged. It is believed that this will provide a key component in ensuring the success of the proposed ventures. Accordingly, Brainspark is in the process of completing the fitting out of a new headquarters building, into which it expects to move in late March 2000. The new headquarters are located in Clerkenwell, an area where there is an already high, but still growing, concentration of emerging internet and new media businesses.

The new building, "The Lightwell", which comprises 18,300 square feet, has recently been refurbished and has been designed to offer a pleasant open-plan working environment that will encourage formal and informal interaction amongst the Partner Companies, technology partners and Brainspark executives. It will enable an appropriate level of management support to be offered to the Partner Companies as and when it is required. It has sufficient space for between 10 to 12 Partner Companies and over 220 work-stations, in addition to offering Cat 5 cabling and high bandwidth connectivity.

Until it moves into its new headquarters, Brainspark is operating out of an office space of 4,700 square feet in Oxford Street, with a further 2,000 square feet of office space near Trafalgar Square.

The Directors also believe that it is key to motivate the founding shareholders and senior management of the Partner Companies to support each others' success. In addition to the interests they have in their individual companies, the Key Partner Company Managers hold Ordinary Shares in Brainspark, thereby motivating them to act in the interests of Brainspark as a whole and not just their respective Partner Companies.

### 2.3 *Investment criteria*

Brainspark looks for companies that have the potential to become European, and preferably global, leaders in their chosen markets. Brainspark looks for an insightful or innovative approach, whether growing out of an existing off-line business or addressing a new market need. In addition, Brainspark looks closely at developing businesses in areas that have proven to be successful in the US, with a view to differentiating from, or improving on, the existing model where appropriate.

#### **Sourcing opportunities**

Brainspark establishes contact with potential Partner Companies from a number of different sources including word-of-mouth referrals from existing Partner Companies, contacts generated by its network of advisers, particularly members of the Advisory Board, and through response to the Brainspark website (which typically receives more than 25 business plans a week).

The Company is also looking to cultivate further opportunities through 'build to order' requests from US e-commerce businesses and the development of the Brainspark brand.

In addition, Brainspark has recently started generating its own ideas and business plans within the internet sector. Brainspark intends to provide the requisite capital and find an appropriate management team to develop these ideas. The Directors believe that this idea generation will enable the Company to retain a larger stake in the Partner Companies created in this way.

#### **The investment**

Brainspark aims to invest between £400,000 and £1 million in cash in each Partner Company. In addition, the Partner Company is offered access to all the resources provided by Brainspark. In exchange, Brainspark usually takes an equity stake in the region of 25 to 35 per cent. in the enlarged Partner Company.

To date, Brainspark has invested a total of approximately £3.7 million in cash in its portfolio of eight Partner Companies (including a convertible loan made to one of the Partner Companies).

Brainspark also intends to invest smaller sums of money in potential Partner Companies to fund research into internet-related business opportunities, ahead of developing a full business plan. This would involve providing sums in the region of £25,000 to enable an assessment of the web opportunities and the business model that is most likely to succeed within that market to be made. In these instances, and in particular where Brainspark is initiating the project, the Company would again be looking to retain a higher equity stake.

#### **Lifetime within the incubator**

In most cases, Brainspark would envisage a Partner Company physically remaining within the Brainspark environment for between six and 12 months, although it has no firm ruling on how long a company should remain within the incubator. The Directors believe that the decision for the Partner Company to leave should be taken on pragmatic grounds based on factors such as rate of headcount growth, revenue growth and timing to next round of financing. In addition, Brainspark may sometimes prefer to keep successful Partner Companies within the incubator for a longer period in order to provide an example to incoming CEOs and Partner Companies of the model they should be seeking to emulate.

#### **Exit strategy**

Brainspark would typically aim to exit investments within an 18 months to three and a half year period. The Directors will not actively seek exits from Brainspark's investments in the short term, but will consider Brainspark's options as and when opportunities for a trade sale or IPO are presented to its Partner Companies.

### 2.4 *The role of Brainspark*

In addition to the provision of capital, Brainspark provides physical infrastructure and takes an active role in its Partner Companies' affairs by providing a number of functions within the Brainspark environment including strategic guidance and operational support in the areas of sales and marketing, executive recruitment and human resources, information technology, finance, and

business development. These services are generally provided by internal Brainspark resources, although on occasion Brainspark will outsource part of its commitment to its Partner Companies to specialist professional organisations.

### **Premises**

The physical infrastructure is provided free of charge to the Partner Companies until they complete their first external round of financing. From then onwards, Brainspark intends to charge the Partner Company for rent at cost, for as long as it remains within the incubator. The Partner Companies are however charged for expenses, such as telephone calls and computer equipment, at cost.

### **Strategic guidance**

Brainspark provides strategic guidance to its Partner Companies regarding market positioning, business model development and identification of market trends. In addition, Brainspark actively advises the management of each of the Partner Companies on day-to-day management and operational issues.

### **Sales and marketing**

Brainspark provides advice and guidance regarding Partner Companies' sales and marketing efforts through both its internal resources, including the Advisory Board, and its network of industry contacts. This guidance is provided free of charge to the Partner Companies.

### **Executive recruitment and human resources**

Brainspark assists Partner Companies in recruiting key executive staff. In providing this assistance, Brainspark leverages the contacts developed by its Partner Companies, Brainspark's management and particular members of the Advisory Board and Egon Zehnder one of the world's largest executive search businesses with a core strength in sourcing senior technology executives.

### **Information technology**

Brainspark has dedicated full-time staff as well as a network of industry contacts helping its Partner Companies with their information systems strategies and solving problems relating to their current information technology. Brainspark's broadband unit assists incumbent Partner Companies and new companies with their broadband initiatives.

### **Finance**

Brainspark has dedicated full-time finance specialists providing guidance to Partner Companies in areas such as accounting, treasury and financial reporting. Brainspark leverages the skills and experience of its internal finance and accounting group and network.

### **Business development**

Brainspark provides Partner Companies with assistance in evaluating and structuring joint ventures, strategic alliances and joint marketing agreements. Brainspark also has a network of relationships within the venture capital community. As a consequence, the Directors believe they are able to secure an introduction for the Partner Companies to a number of venture capital companies who invest in technology companies. The Company will apply for authorisation under the Financial Services Act 1986 to conduct investment business in order that it may, in the future, take a more active role in arranging further finance for its Partner Companies.

### **Web development**

Brainspark provides Partner Companies with access to web design, web development and consultancy services through Fortune Cookie, one of the Partner Companies, which has a team of over 40 web developers. Fortune Cookie's expertise is available to all the Partner Companies and may involve anything from basic web design solutions to more complex "build to order" web development tools. Brainspark is also able to leverage its relationships with certain of the major web development software companies for the benefit of the Partner Companies.

### **3. Market background**

The internet investment market in the UK is a young industry. Internet capital providers, not all of which can properly be described as incubators, can be split into three categories:

#### ***Incubators***

Incubators, such as Brainspark, provide physical infrastructure and other support services to internet businesses at a very early stage in their development (the business may be no more than a business plan). They provide relatively modest amounts of seed capital but take relatively large percentage stakes. They tend to be the only participant in the seed round of financing. Because of the high levels of support offered, they tend to make relatively few investments.

#### ***Early stage venture capitalists***

Early stage venture capitalists tend to participate in a start-up's second round of financing. While they also offer advice and support, this is generally less significant and intensive than the support offered by the incubators. They often provide larger tranches of capital than the incubator but take smaller stakes than the incubators and because they offer less support, they can run larger portfolios. They tend to finance the internet start-ups as they emerge from the incubation phase.

#### ***Internet investment vehicles***

Internet investment vehicles also tend to participate in a start-up's second round of financing. They are more passive investors than the early stage venture capitalists and offer less advice and support. They provide tranches of capital of a similar size to that of the early stage venture capitalists and take similar sized stakes. They may well participate in financing rounds alongside early stage venture capitalists and can run relatively large portfolios.

### **4. The Partner Companies**

To date, Brainspark has eight Partner Companies that it is incubating, a summary of each of which is set out below. Brainspark is currently in negotiations which the Directors believe will lead to a further three investments being made by the end of July 2000 and is continually reviewing new investment opportunities.

#### **4.1 *Petspark (b2c)***

Petspark, in which Brainspark currently has a 33.3 per cent. stake (acquired on 22 September 1999), is a European pet portal business focused on building an online community of pet enthusiasts which was launched in October 1999. Petspark provides a themed content aimed at families that is fun, safe and community led. The business expects to have more stock items within its pet superstore than any of its European competitors. It is aiming to be the largest online pet store in Europe.

Petspark has agreed heads of terms with Pets.com, a US pet portal business, with regard to a potential strategic investment in Petspark.

#### **4.2 *EasyArt (b2b and b2c)***

EasyArt launched on 16 March 2000 (at the Ideal Home Exhibition) with a bank of approximately 15,000 tagged and searchable images available online, along with an integrated online framing capability. It is a one-stop internet art shop which caters for the art print and framing needs of businesses and individuals at the lower end of the budgetary scale. EasyArt intends to provide the fulfilment for major art galleries and art shops in the UK, Northern Europe and Australasia through its affiliate programs.

EasyArt is a wholly owned subsidiary of Kalesta Limited, in which Brainspark has a 25 per cent. interest (acquired on 26 November 1999).

#### **4.3 *Fortune Cookie (b2b)***

Fortune Cookie, in which Brainspark has a 25 per cent. stake (acquired on 1 December 1999), is a web design and development company which specialises in executing client design specifications and assisting clients with the more commercial aspects of web development. Its clients include British Telecom as well as certain of the other Partner Companies.

#### 4.4 *Leisurehub (b2b)*

Leisurehub, in which Brainspark has a 25 per cent. stake (acquired on 3 November 1999), is a portal site and market place for the leisure industry, bringing buyers and sellers of all kinds of leisure related products together. Clients purchase anything from roller coasters, arcade machines, rowing machines and fairground cuddly toys to a host of other leisure related products. There are job adverts, businesses for sale, news, a calendar, statistics, information (such as weather forecasts) and community features.

Leisurehub, which was launched in February 2000, benefits from having a number of prominent individuals within the UK and US leisure market as investors. Martin Fiennes, one of the Non-Executive Directors, is a minority shareholder in Leisurehub.

#### 4.5 *perfectday (b2c)*

perfectday, in which Brainspark has a 25 per cent. stake (acquired on 17 November 1999), is a wedding portal site aimed at providing high quality content relating to all aspects of the wedding process, backed up by exclusive affiliations with 'You and Your Wedding', and 'Bride and Groom', the best- and fourth best-selling wedding magazines in the UK respectively. perfectday, which is expected to launch in April 2000, will provide online wedding tools from guest-list planners, invitation acceptance, schedulers, budgeting tools and wedding gift lists.

#### 4.6 *Smile-on (b2b and b2c)*

Smile-on, in which Brainspark has a 40 per cent. stake (acquired on 14 January 2000), is a European dental community site aimed at providing high quality content and commerce to both consumers and professionals on all dental related issues. Smile-on, which is expected to launch in April 2000, aims to provide dental care information on a wide variety of dental conditions and procedures. Smile-on will enable consumers to seek advice from qualified dentists and will provide directories of dentists in the local area, as well as a fun environment for children to learn about dental care. For professionals, Smile-on will offer dental practice management tools, access to trade suppliers, aggregated buying, discussion groups, information and news, continuing professional development and further opportunities to differentiate and grow their practices.

#### 4.7 *Hobomedia (b2b)*

Hobomedia, in which Brainspark has a 25 per cent. stake (acquired on 10 March 2000), is an internet based digital assistant that provides information and services to the music, film and television industries. The Directors believe that Hobomedia, which is expected to launch in May 2000, will be an attractive proposition to the industry supply chains on the production side and will look to generate revenues by charging for efficiency enhancing services and improved information flow amongst the industry participants.

#### 4.8 *Metapack (b2b)*

Metapack, in which Brainspark has a 10 per cent. stake (acquired on 6 March 2000), will provide one-stop supply chain solutions for e-tailers and enables them to scale their on-line offerings rapidly while delivering industry-leading customer service. Metapack's aim is to establish itself in Europe as the most reliable, cost efficient and convenient means of buying such products on the internet.

Metapack, which is expected to launch in late March 2000, intends to create a real-time network linking together its supply chain business partners and is building a pool of knowledge and data in the e-tail sector. It does not own physical assets but works with warehouse and carrier partners and adds value to them by creating and managing best practice operational processes supported by leading edge technology. Central to Metapack's offering will be real-time technology links between websites, fulfilment centres, carriers and suppliers. Metapack also manages the flow of information and the business processes between the principals in the e-tail supply chain.

## **5. Directors and key management**

### *5.1 Brainspark directors*

#### **Barbara Thomas (aged 53) Non-executive Chairman**

Barbara Thomas, who joined Brainspark in February 2000, is the non-executive chairman of Axon Group plc, an ERP and e-commerce consultancy firm, and executive chairman of Net Investor plc, a recently quoted investment trust for UK retail investors to gain exposure to Silicon Valley venture firms. Barbara is also deputy chairman of Friends Provident Life Office and a director of a number of other public and private companies. She is also a former commissioner of the US Securities and Exchange Commission.

#### **Stewart Dodd (aged 37) Chief Executive Officer**

Stewart Dodd, who co-founded Brainspark in June 1999, was most recently the head of the WestLB Panmure technology group, with a focus on internet-related businesses. Prior to joining WestLB Panmure, Stewart founded Nomura International's technology group practice. He has also worked for Goldman Sachs & Co. in London, New York and Tokyo. In addition, Stewart has been involved with a number of ventures in the internet arena, including Zeus Technologies Limited, a Cambridge-based (UK) software business.

#### **Noah Freedman (aged 50) Chief Technology Officer**

Noah Freedman, who co-founded Brainspark in June 1999, has worked in the technology industry for over 25 years. Most recently, he led advanced technology company and market analysis for the WestLB Panmure technology group. Previously, he had spent 15 years managing research and development projects in the technology industry, before working for six years with the communications and electronic systems practice of PA Consulting Group, ultimately becoming a partner.

#### **Alwyn Welch (aged 42) Chief Operating Officer**

Alwyn Welch, who joined Brainspark in February 2000, was most recently chief executive of the UK, Ireland and Asia Pacific businesses of Cap Gemini S.A. and a member of Cap Gemini's group executive committee. A chartered electronics engineer, Alwyn has previously worked for Plessey Electronic Systems Research Ltd, a role that encompassed M&A activity, sourcing technology (mainly in Silicon Valley) and IT management. He joined Hoskyns Group plc, which became Cap Gemini UK, in 1988.

#### **Martin Fiennes (aged 39) Non-executive Director**

Martin is an investment manager with Top Technology, an early-stage venture capital company for UK-based businesses and a Significant Shareholder. He sits on the board of three other companies where funds managed by Top Technology have made an investment - FOL Networks Ltd (a b2b community and e-commerce site for the agricultural sector), Focus Solutions Group plc (providing software products and e-commerce tools for businesses operating within the financial services industry) and Cherwell Scientific Ltd. (providing software products for researchers in chemistry, genetics and environmental and biomedical sciences).

#### **Sheryl Daniels-Young (aged 43) Non-executive Director**

Sheryl Daniels-Young is the managing partner of the UK office of Cross Atlantic Capital Partners (a Significant Shareholder) and is a general partner of its fund, with over 20 years experience in the information technology industry, 10 of which have been in the financial arena. Prior to joining Cross Atlantic, she served as a vice president and senior equity analyst focusing upon information technology companies for J.P. Morgan Securities in New York. Sheryl has been a frequent speaker and commentator on technology trends in both Europe and North America. She holds an MBA from the Stern School of Business at New York University.

It is the intention of the Directors to appoint a finance director in due course. An interim finance director, Philip Lindsell, formerly finance director of Chesterfield Properties plc and North Sea Assets plc, will remain in place until his successor is appointed and a suitable handover period has been completed. In addition, the Directors intend to appoint an additional independent non-executive Director.

## 5.2 Key Brainspark management

### **Richard Davidson (aged 25) Director, Private Equity Group**

Richard Davidson, who co-founded Brainspark in June 1999, was most recently employed as an investment banker within the WestLB Panmure technology group – with responsibility for raising capital for early stage internet businesses in the UK and Europe. His previous role was within Nomura International's technology group, raising capital for early and later stage technology businesses in Europe and the US, ranging from private capital raisings to IPO and secondary offerings. Richard's role within Brainspark is to assist Partner Companies with the development of their business plans.

### **Paul Cackett (aged 30), Director of Broadband**

Paul Cackett, who joined Brainspark in February 2000, has a background in satellite broadcasting, working for both independent broadcasting companies and BSkyB plc since 1995. In that time, he has negotiated and developed interactive television programming projects with third party channels, managed the development of a number of broadcast channels on both analogue and digital platforms, and more recently within BSkyB's ventures division, he was involved in the development of joint ventures and the identification of new partnerships and investments.

### **Keith Brooks (aged 40), Director of Human Capital**

Keith Brooks, who joined Brainspark in December 1999, was previously the director of operations and resources with Franklin & Andrews International Limited, an international property and construction consultancy. Prior to this, Keith worked for the Ministry of Defence (Army) as a strategic planner working in the UK and overseas to develop new deployment concepts. Keith also works as a fundraiser for a national charity.

### **David Hart (aged 32), Director of Marketing and Communications**

David Hart, who joined Brainspark in November 1999, has a background in marketing and publishing, working for The Economist and, later, as head of marketing for the business book publishing division of the *Financial Times* group, he developed an award winning campaign for *Financial Times* branded products aimed at the financial community.

### **Paul Thomas (aged 31), Director of Technology**

Paul Thomas, who joined Brainspark in November 1999, has worked in the IT industry for over eight years. More recently he has worked on a contract basis providing IT services to businesses including Citibank, Schroders Investment Management and Equitas. Paul has been involved in projects to provide internal networks, intranets, standardised desktops and Year 2000 compliancy to these organisations. Prior to this he spent three years providing IT & business consultancy to the travel industry.

### **Will Lovegrove (aged 27) Entrepreneur in Residence**

Will Lovegrove joined Brainspark in March 2000 from PeopleSound.com, a European MP3 business, where he held the position of product director and chief editor and was responsible for coordinating the design, development and implementation of in-house and third party agencies involved in the delivery of the web business. Prior to joining PeopleSound.com, Will was head of new media for Ministry of Sound Digital where he was responsible for the development and implementation of that company's online presence. Will has also worked with Adobe Systems in San Jose, holds a doctorate in electronic publishing and joins Brainspark as an entrepreneur in residence.

### **John McFarland (aged 38) Director, Business Development**

John McFarland joined Brainspark in March 2000 from EasyEverything Ltd, a novel internet retailing concept that he founded and took to Easygroup for venture funding. EasyEverything is now the UK's largest chain of low cost internet cafes and is using its powerful brand to market both its core services as well as new opportunities. Prior to this, John was head of equity marketing and strategy at Lehman Brothers International for three years and is a qualified architect.

### **Danielle Simmonds-Dance (aged 28), Director of Content**

Danielle Simmonds-Dance joined Brainspark in January 2000, after five years working in radio and television. After an MA in journalism, Danielle joined London News Radio as a producer and later senior producer on both the FM and AM frequencies. In 1996, she joined Live TV as deputy news editor before heading up that company's bureaus first in Liverpool and then in Manchester. In 1998 she returned to London as head of production and news for Live TV.

### 5.3 *Key Partner Company Managers*

The Partner Companies have service contracts with each of the following individuals (except James Buchanan) all of which include such non-competition and non-solicitation clauses as the Directors believe are sufficient for the Company's purposes.

#### **Nicholas Barnard, Founder and CEO, Petspark**

Nicholas Barnard, who founded Petspark in January 1999, has been a publisher for over 15 years. He has created and managed projects for both art and mass media consumer publishers in Europe and North America. Nicholas is also the founder of Greenhouse New Media Limited, whose clients include Deutsche Grammophon, Dorling Kindersley Holdings plc, Ten Speed Press and Marshall Editions. His previous publishing positions include managing director of Dorling Kindersley's adult division and editorial director at Haynes Publishing.

#### **Simon Mathews, CEO, EasyArt**

Simon Mathews, who founded EasyArt in September 1999, has had 11 years experience in the art world. He is co-founder of Davies & Tooth Ltd, art consultants and dealers specialising in the corporate sector. He is also founder and managing director of The Air Gallery, a central London art gallery.

#### **Justin Cooke, CEO, Fortune Cookie**

Justin Cooke worked for the BBC, Levi's and Rondor Music Publishing before founding Fortune Cookie in April 1997. His role is now a mixture of creative development, company direction and account management.

#### **Tim Batstone, CEO, Leisurehub**

Tim Batstone, who founded Leisurehub in September 1999, has spent most of his career in the leisure industry, developing HB Leisure Ltd from its original base of two family entertainment centres into a substantial international business with annual revenues of approximately £8 million. He is a board member of the British Amusement Catering Trades Association and the British Association of Leisure Parks, Piers and Attractions. He is also a games committee member of the International Association of Amusement Parks and Attractions.

#### **James Buchanan, Founder, perfectday**

James Buchanan is the founder and sole shareholder of AIM Publications, which publishes two of the top four titles in the wedding magazine market – *You & Your Wedding* (ranked No.1) and *Bride & Groom* (ranked No.4). Since 1996 he has formed two successful joint ventures: (i) to launch Britain's market leading mobile phone buyers' guide, *Mobile Choice*, and (ii) to launch, as a director and shareholder, SpecialHotels.com, a luxury hotel marketing business currently representing over 200 of the world's most exclusive destination, resort hotels.

#### **Patrick Wall, Founder and Joint Managing Director, Metapack**

Patrick Wall, who founded Metapack in November 1999, has held a series of senior positions in Cadbury Schweppes plc, McKinsey & Co and Hays plc as well as managing start-ups and turnarounds.

#### **Michael Hall, Founder and Joint Managing Director, Metapack**

Prior to founding MetaPack in November 1999, Michael Hall was a director at Deutsche Bank AG and previously a principal with Bankers Trust in New York, where he worked as a trader in its fixed income arbitrage group.



### **Noam Tamir, CEO, Smile-on**

Noam Tamir, who founded Smile-on in November 1999, has extensive experience in computer services, management and marketing. Noam is the founder of Isys Plc, the London-quoted consultancy and IT service provider where he has been the managing director for the past 13 years. Noam is a member of the Worshipful Company of Information Technology and over the last few years has been a contributing member of the IT training and educational panel.

### **Alphonse Nwawudu, CEO, Hobomedia**

After graduating from St John's College Cambridge in 1994, Alphonse Nwawudu joined ING Barings Securities where he managed the development of the convertible bond research product from technology through to marketing. He left to found Hobomedia in March 1999.

#### 5.4 *The Advisory Board*

The Advisory Board, which comprises experienced individuals from within the technology sector, is formally convened on a twice yearly basis and is available to the Partner Companies at other times during the year. The Advisory Board provides an external reference point for Brainspark and the Partner Companies. In particular the Advisory Board provides a source of knowledge and contacts within the industry to assist in the development of the Partner Companies and provides a potential source of new investment opportunities. The Advisory Board members receive no financial remuneration. All members of the Advisory Board have invested in Brainspark in either the first or second round of funding.

The Advisory Board, which numbers nine at present, consists of the following individuals: Geoffrey Chamberlain (Chairman and CEO of Durlacher Corporation plc), Eric van der Kleij (COO of Realcall Ltd), Mark Hunter (CEO of Axon Group plc), Russell Carmedy (Managing partner of Gouldens), Andrew Hawkins (Partner of Palamon Capital Partners), Michael Walton (CEO of NVision), Mark C Thompson (Senior VP of Charles Schwab), Adam Twiss (CEO of Zeus Technology Ltd) and Dinesh Dhamija (CEO of eBookers.com plc).

## **6. Other**

#### 6.1 *Reasons for the Placing*

The purpose of the Placing is to raise funds to invest in further innovative concepts which the Directors believe can become successful commercial enterprises. Funds are also required to continue to raise the level of in-house expertise, both in terms of the personnel and services available to the Partner Companies and to continue the development of the Company's infrastructure. Brainspark is keen to ensure that the quality of service available to Partner Companies is not compromised by spreading management time and resource too thinly over a rapidly growing number of projects. Brainspark will also use the proceeds to look at initiatives to build its brand outside the UK, particularly into continental Europe.

#### 6.2 *Details of the Placing*

Schroders has conditionally placed 16,000,000 Ordinary Shares, as agent for the Company, with investors at 125p per share. The Placing, which is not underwritten, is conditional upon the admission of the Ordinary Shares to trading on AIM on 7 April 2000, or such later time as Schroders and the Company agree.

The Placing Shares comprise 16,000,000 new Ordinary Shares to be issued by the Company.

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on 7 April 2000.

The Placing is intended to raise £20.0 million, before expenses. After expenses of the Placing and Admission, estimated in total at £1.6 million (excluding VAT) the Placing is intended to raise £18.4 million net, of which £13.9 million will be used to fund the continued growth and consequent working capital requirements of the Company (with £4.5 million being the net funding cost to the Company of the ancillary arrangements referred to in paragraph 6.3 below).

### 6.3 Ancillary arrangements

Brainspark has issued Warrants to Employees and to the Key Partner Company Managers. On each occasion, Warrants have been issued with an exercise price set by reference to the market value of the Company's shares prevailing at the time of grant. In most cases, the Warrantholders have acquired their Warrants by reason of their employment and, on exercising their Warrants, will become chargeable to income tax (and, if relevant, National Insurance) on an amount equal to the difference between the market value on the date of exercise of the underlying Ordinary Shares and the Warrant exercise price. Under current UK tax legislation, the Company will also be required to account for National Insurance (currently charged at the rate of 12.2 per cent.) on the Warrantholders' notional gain on exercise. If all the Warrants were to be exercised at the Placing Price, the Company's National Insurance liability would be approximately £2.5 million.

If the Warrants were not exercised on Admission and Brainspark's share price were to rise after Admission, the Company's National Insurance liability would continue to rise. To the extent that the Company cannot predict when a Warrantholder will exercise his Warrants, this liability would represent an unquantifiable liability from year to year until the Warrants lapse.

The Company has set up an independently-operated employee benefit trust in Jersey for the benefit of employees and former employees of the Company and its subsidiaries and their dependants. The Company will make a loan of approximately £5.3 million (on an interest-free basis) to the trustees who will acquire Ordinary Shares from the Key Partner Company Managers, and two Warrantholders who are not employees, all of whom must under the terms of their Warrants exercise them prior to Admission. The trustees have agreed to acquire 3,928,510 Ordinary Shares at the Placing Price from the Key Partner Company Managers and the non-employee Warrantholders with the funds loaned to them by the Company. The Key Partner Company Managers and the non-employee Warrantholders will sell to the trustees only such number of their Ordinary Shares (arising on the exercise of their Warrants) as are required by them to satisfy their Warrant exercise costs and the income tax liability arising therefrom. Following such sale, the Key Partner Company Managers will hold in aggregate 3,582,038 Ordinary Shares. Further details are set out in paragraph 5 of Part IV.

By requiring the Key Partner Company Managers to exercise all their Warrants, the National Insurance liability of the Partner Companies in respect of those Warrants has been crystallised at approximately £1.1 million. The Company will provide an indemnity to the Partner Companies for this National Insurance liability and will receive a total of £1.9 million from the Warrant exercise proceeds.

The trustees of the employee benefit trust have agreed to dispose of some of the Ordinary Shares they acquire and use the proceeds arising from such disposals to discharge the Company's National Insurance liability. Given that the value of the Ordinary Shares held by the trust will increase proportionately to the National Insurance liability of the Company, the Company has effectively 'hedged' its liability. By these means, the Company can fund the cash element of its National Insurance exposure on the exercise of Warrants by its Employees and provide the means for incentives to be given in the future to employees, both directly and by means of the operation of the employee benefit trust. The recoverability of the loan from the employee benefit trust will depend upon, *inter alia*, the future market value of the Ordinary Shares held by the trust.

It was announced on 21 March 2000 that the Government was considering ways of enabling employees to assist their employers in meeting the National Insurance liability arising on the exercise of options. If legislation permitting such arrangements (or other arrangements) to meet this liability is enacted before Warrants are exercised, the Company may not call on the trustees to meet the National Insurance liability but may instead enter into other arrangements permitted under the then prevailing legislation to do so.

All of the Key Partner Company Managers and any employee of the Company choosing to exercise his Warrants will be subject to the lock-in arrangements, on the Ordinary Shares they retain, as described in paragraph 6.4 below.

As part of the Placing, Richard Davidson has elected to sell 125,017 Ordinary Shares to the employee benefit trust at the Placing Price and Noah Freedman has elected to exercise 188,154 Warrants and to sell the Ordinary Shares arising from such exercise to the employee benefit trust at the Placing Price. This will enable them to satisfy any tax liability which may arise from their subscription for shares on 22 September 1999.

No funds in excess of their potential tax liabilities and the Warrant exercise costs are being realised by Noah Freedman, Richard Davidson or any of the Key Partner Company Managers.

#### 6.4 *Lock-in arrangements*

Immediately following Admission:

1. the Directors will be interested, in aggregate, in 20,060,040 Ordinary Shares (representing 16.3 per cent. of the enlarged issued share capital of the Company);
2. the Employees (excluding the directors) will be interested, in aggregate, in 2,314,983 Ordinary Shares (representing 1.9 per cent. of the enlarged issued share capital of the Company);
3. the members of the Advisory Board will be interested, in aggregate, in 289,140 Ordinary Shares (representing 0.2 per cent. of the enlarged issued share capital of the Company);
4. the Significant Shareholders will be interested, in aggregate, in 75,713,000 Ordinary Shares (representing 61.5 per cent. of the enlarged issued share capital of the Company);
5. Schroders will be interested, in aggregate, in 120,000 Ordinary Shares (representing 0.1 per cent. of the enlarged issued share capital of the Company); and
6. the Key Partner Company Managers will be interested, in aggregate, in 3,582,038 Ordinary Shares (representing 2.9 per cent. of the enlarged issued share capital of the Company).

Under the terms of a lock-in agreement dated 23 March 2000, the Directors, the Employees, the Advisory Board, the Significant Shareholders and the Key Partner Company Managers have each severally undertaken to the Company and Schroders that, without the consent of Schroders, save in the event of an intervening court order, a takeover offer relating to the Company's shares becoming or being declared unconditional or the death of any party, they will not (and will ensure that persons, if any, connected with them within the meaning of section 346 of the Act will not) sell or otherwise dispose of, or agree to dispose of any of their respective interests in the Ordinary Shares immediately following Admission at any time prior to the first anniversary of Admission. These restrictions will apply to any Ordinary Shares issued to Employees or Key Partner Company Managers pursuant to the exercise of Warrants or otherwise.

The Directors, the Employees, the members of the Advisory Board, the Significant Shareholders and the Key Partner Company Managers have further severally undertaken to Schroders that, without the consent of Schroders, save in the event of an intervening court order, a takeover offer relating to the Company's shares becoming or being declared unconditional or the death of any party, they shall only dispose of their interest in the Ordinary Shares immediately following Admission through Schroders as nominated broker and in any event on such terms, in such volumes and at such times as Schroders may in its absolute discretion allow for the period starting on the day after the last day of the first anniversary of Admission and ending 18 months thereafter.

As part of its commission payable pursuant to the Placing Agreement, Schroders will receive 120,000 Ordinary Shares and 100,000 warrants (with an exercise price at a 20 per cent. premium to the Placing Price). Schroders has undertaken to the Company that, without the consent of the Company (under the terms of its engagement by the Company), except in accordance with the AIM Rules, it will not sell or otherwise dispose of or agree to dispose of any of its interest in the Ordinary Shares at any time prior to the second anniversary of Admission. In addition, the Warrants granted to Schroders as part of the commission will not be exercisable until the second anniversary of Admission.

Lyric Trust, a trust connected with the Landlord, holds Warrants over 1,846,242 Ordinary Shares (representing 1.5 per cent. of Brainspark's enlarged share capital following Admission) which are exercisable after completion of the Lease. Any Ordinary Shares issued to Lyric Trust pursuant to such Warrants will not be subject to these lock-in arrangements.

#### 6.5 *Current trading and prospects*

As set out in Part II, the Company incurred a loss in the period to 31 December 1999 owing primarily to the costs of accommodation, management, information technology and administration. Such expenses will continue to be incurred. Partner Companies are expected to be treated as associated undertakings for financial reporting purposes and, accordingly,

Brainspark's share of their results is expected to be brought into Brainspark's consolidated profit and loss account. Future profitability will therefore depend on the level of Brainspark's own costs, the results of Partner Companies and the timing and value of any disposal of investments and the value thereby realised.

Since 31 December 1999, Brainspark has completed its second round of financing, details of which are set out on page 9 and has made three investments (in Smile-on, Metapack and Hobomedia).

The Directors believe that, as a result of the Placing, the Company will be well positioned to develop its existing portfolio of Partner Companies and to invest in further internet-related business opportunities.

#### 6.6 *Dividends*

The Company is seeking primarily to achieve capital growth for its shareholders. It is not the present intention of the Directors to pay a dividend on the Ordinary Shares. During the current phase of development of the Group's business it is the Board's intention to retain profits for use within the business.

#### 6.7 *Corporate governance*

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice (the "Combined Code") published by the London Stock Exchange. The Directors intend following Admission, where practicable and appropriate for a company of its size and nature, to apply procedures to ensure that the Company complies with the main provisions of the Combined Code.

The Company intends to hold board meetings at regular intervals during the year at which reports from its Partner Companies will be considered. The Board is responsible for formulating, reviewing and approving Group strategy, budgets, major items of capital expenditure and acquisitions. The Board currently consists of three executive Directors and three non-executive Directors. Brainspark intends to appoint an additional independent non-executive Director in due course.

Following Admission, the Audit Committee will consist of the three non-executive Directors. It will meet whenever there is business to be discussed and at least twice each year. The Audit Committee is responsible, on an ongoing basis, for ensuring that the Group's financial performance is properly monitored, controlled and reported. It will also meet the auditors and review reports from the auditors relating to accounts and internal control systems.

Following Admission, the Remuneration Committee will consist of the three non-executive Directors. It will review the performance of the executive directors and will recommend the scale and structure of their remuneration packages with due regard to the interests of shareholders. The Remuneration Committee will also make recommendations to the full board concerning the allocation of share options to employees and will apply the agreed performance criteria to the exercise of such options.

#### 6.8 *Additional information*

Your attention is drawn to the additional information set out in Part IV of this document.

### **7. Risk factors**

**An investment in the Company may not be suitable for all recipients of this document. Investors are accordingly advised to consult an investment adviser authorised under the Financial Services Act 1986 who specialises in investments of this kind before making their decisions.**

The Ordinary Shares are not listed on the Official List and although the Company's securities are to be traded on AIM, AIM has only been in existence since June 1995 and its future success and liquidity in the market for the Company's securities cannot be guaranteed. The value of the Ordinary Shares may be volatile and may go down as well as up and investors may, therefore, not recover their original investment.

In addition to the usual risks associated with an investment in a business at an early stage of its development, the Directors consider the following risk factors to be the most significant to potential investors. They do not necessarily comprise all the risks associated with an investment in the Company:

- The Company's business is, to a certain extent, dependent on key personnel who, if they left the Company, would not be easily replaceable within a short period.
- The market price of the Ordinary Shares may not reflect the underlying value of the Company.
- The internet sector is experiencing a period of rapid change and is therefore subject to considerable volatility. In addition, the internet is a new business arena where there are few established or, as yet, profitable companies. The combined effect of this volatility and immaturity in parts of the markets in which the Company will be making its investments will substantially increase the risks associated with the Company's investments.
- The internet is attracting a high degree of interest from other sources of funding, both private and public. It is therefore likely that the Company will face increasing levels of competition for attractive investment opportunities and a corresponding rise in the cost of acquiring them. Many of the Company's competitors may have significantly greater resources than the Company.
- Consolidation within the internet sector could adversely affect the availability of investment opportunities for the Company.
- There will be no limits on the power of the Company to invest in shares of any company or companies and therefore no certainty that there will be a spread of Partner Companies such as would mitigate risk.
- The Company's activities are likely to remain loss making for some time, and the future funding of the Company will depend both on the ability of the Company to raise further capital by the issue of its own shares and on the ability of the Company to realise its investments. There can be no certainty in either of these areas.
- The Company's investment policy is to invest in the shares of smaller, unquoted companies. Such investments may be difficult to realise and such companies frequently lack the financial strength, diversity and resources of larger companies and may find it more difficult to overcome, or survive, periods of economic slowdown or recession.
- The Company is likely to need to raise additional funds in the future to ensure future growth and expansion. Any equity offerings to new investors could result in earnings dilution for existing shareholders and investors in the Placing. Further, there can be no guarantee or assurance that additional funds can be raised when necessary.
- The business was only recently established (in June 1999) and has a short trading record. It does not yet have all the internal systems and controls which investors would expect from a larger, more established business. The Directors are taking steps to ensure that appropriate provision (for a company of its size and nature) is made in these areas.
- All of the Partner Companies are at an early stage in their development. There can be no guarantee as to the success or profitability of any of the Partner Companies.
- Some of the current or future Partner Companies may be placed in receivership or liquidation and the whole of Brainspark's investment in the value of such Partner Company may be lost.
- The market perception of securities related to the internet may change and, accordingly, the value of the Ordinary Shares and /or of the Partner Companies may decline.
- The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. Investors may realise less than the original amount invested.

**The risks listed above do not necessarily comprise all those associated with an investment in the Company.**

## PART II

### ACCOUNTANTS' REPORT ON BRAINSPARK ASSOCIATES LIMITED



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**PricewaterhouseCoopers**

1 Embankment Place  
London  
WC2N 6NN

The Directors  
Brainspark plc  
MWB Business Centre  
77 Oxford Street  
London  
W1R 1RB

The Directors  
J. Henry Schroder & Co. Limited  
120 Cheapside  
London  
EC2V 6DS

23 March 2000

Dear Sirs

**Brainspark Associates Limited**

**Introduction**

We report on the financial information set out below in respect of Brainspark Associates Limited ("BAL"). This financial information has been prepared for inclusion in the prospectus dated 23 March 2000 ("the prospectus") of Brainspark plc ("the Company").

BAL was incorporated on 3 June 1999. On 1 March 2000, the Company acquired, in exchange for shares, the entire issued share capital of BAL. A separate accountants' report on the Company is set out in Part III of the prospectus.

**Basis of preparation**

The financial information set out below is based on the audited financial statements of BAL for the period from 3 June 1999 (date of incorporation) to 31 December 1999 to which no adjustment was considered necessary.

**Responsibility**

Such financial statements are the responsibility of the directors of BAL, who approved their issue.

The directors of the Company are responsible for the contents of the prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of BAL, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of BAL as at 31 December 1999 and of its loss and cash flows from 3 June 1999 (date of incorporation) to 31 December 1999.

**Consent**

We consent to the inclusion in the prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule I of the Public Offers of Securities Regulations 1995.

## Financial information

### Profit and loss account for the period ended 31 December 1999

		BAL	Proforma	
	Notes	£'000	Share of Associates £'000	Total £'000
Turnover	1	–	83	83
Cost of sales	2	–	(34)	(34)
Gross profit		–	49	49
Net operating expenses	2	(373)	(295)	(668)
<b>Operating loss</b>	2	(373)	(246)	(619)
Interest receivable and similar income	5	58	–	58
<b>Loss on ordinary activities before taxation</b>	6	(315)	(246)	(561)
Taxation	8	–	(10)	(10)
<b>Loss for the financial period</b>	16	(315)	(256)	(571)
Basic loss and diluted loss per ordinary 10p share	7	<u>£(83.95)</u>		
Adjusted basic loss and diluted loss per Ordinary Share post restructuring	7	<u>(0.8395)p</u>		

The results for the period above are derived entirely from continuing operations.

BAL has no recognised gains and losses other than those included in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been prepared.

There is no difference between the retained loss for the period as stated above, and the historical cost equivalents.



**Balance sheet  
at 31 December 1999**

		BAL £'000	<i>Proforma</i> BAL including share of associates £'000
	<i>Note</i>		
<b>Fixed assets</b>			
Tangible assets	9	7	7
Investments in associates	10	3,422	3,166
		<u>3,429</u>	<u>3,173</u>
<b>Current assets</b>			
Debtors	11	441	441
Cash at bank and in hand		3,647	3,647
		<u>4,088</u>	<u>4,088</u>
<b>Creditors: amounts falling due within one year</b>	12	(115)	(115)
<b>Net current assets</b>		<u>3,973</u>	<u>3,973</u>
<b>Net assets</b>		<u>7,402</u>	<u>7,146</u>
<b>Capital and reserves</b>			
Called up share capital	15	1	
Share premium	16	7,688	
Profit and loss account	16	(287)	
<b>Equity shareholders' funds</b>	17	<u>7,402</u>	

**Cash flow statement  
for the period ended 31 December 1999**

	Note	BAL £'000
<b>Net cash inflow from operating activities</b>	18	<u>(624)</u>
<b>Returns on investment and servicing of finance</b>		
Interest received		17
Net cash flow from returns on investment and servicing of finance		<u>17</u>
<b>Taxation</b>		<u>–</u>
<b>Capital expenditure and financial investments</b>		
Purchase of tangible fixed assets		(14)
Purchase of fixed asset investments and related costs		<u>(1,889)</u>
Net cash outflow for capital expenditure and financial investments		<u>(1,903)</u>
Net cash outflow before use of liquid resources and financing		<u>(2,510)</u>
<b>Management of liquid resources</b>		<u>–</u>
<b>Financing</b>		
Issue of ordinary share capital		6,157
Net cash inflow from financing		<u>6,157</u>
<b>Increase in net cash</b>	19	<u>3,647</u>

# Notes to the financial information

for the period ended 31 December 1999

## Principal accounting policies

The financial information has been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important company accounting policies, which have been applied consistently, is set out below.

## Basis of accounting

The financial information is prepared in accordance with the historical cost convention.

## Accounting for associates

BAL has no subsidiaries and therefore does not prepare consolidated accounts.

The share of net assets together with goodwill and the share of the associates' profit and loss accounts have been included as a proforma in accordance with the requirements of FRS9. Investments in associates are stated in BAL's balance sheet at cost, or cost based on the fair value of the consideration paid for the investment, including acquisition costs.

## Goodwill

Goodwill has arisen, being the excess of the fair value of the consideration paid for the associates acquired during the period over the fair value of the net assets of the associates at the date of acquisition.

Goodwill has been capitalised and included within Investments in associates in the proforma together with the share of net assets of the associates. Goodwill is eliminated by amortisation through the profit and loss account over its useful economic life which is assumed to be three years.

## Foreign currencies

Assets and liabilities of operations in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period and the results of foreign operations are translated at the average rate of exchange for the period.

## Tangible fixed assets

The cost of other tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal rates used for this purpose are:

Computer equipment	50%
--------------------	-----

## Turnover

Turnover, which excludes value added tax, and trade discounts, represents the invoiced value of goods and services supplied.

## Pension costs

Pension costs are charged to the profit and loss account as they accrue.

## Deferred taxation

Deferred taxation is provided using the liability method in respect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

## Costs of shares issued at below market value

Under Urgent Issues Task Force Abstract Number 17, BAL is required to recognise in its profit and loss account the amount by which the fair market value of any shares issued to employees exceeds the consideration paid by the employee.

These costs are recognised in the profit and loss account on a straight line basis over the period to which the performance criteria relate, which is five years.

## 1. Segmental analysis by class of business

BAL has no turnover for the period. All turnover of the associates is in respect of Fortune Cookie (UK) Limited and arose in the UK.

All costs of BAL relate to activities in the United Kingdom and Ireland.

## 2. Cost of sales and other operating expenses

	1999 £'000
Total net operating expenses	(388)
Charged to associates	15
<b>Net operating expenses and operating loss</b>	<b>(373)</b>

All of the loss relates to continuing operations.

## 3. Directors' emoluments

	1999 £'000
Aggregate emoluments	51
BAL's contribution to defined contribution pension scheme	4
	55

There are no retirement benefits accruing to the directors under defined benefit schemes.

### Highest paid director

	1999 £'000
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	51

£4,000 accrued pension liability arises in respect of the highest paid director.

### Transactions with directors, officers and others

Stewart Dodd, a director and chief executive of BAL, acquired 1,609 "B" ordinary shares in BAL for consideration of 6,667 shares in Petspark.com Limited. The aggregate valuation given to the Petspark shares is £1,541,162.

## 4. Employee information

The average monthly number of persons (including executive directors) employed by BAL during the period was four, all of whom were administration staff.

	1999 £'000
<b>Staff costs (for the above persons):</b>	
Wages and salaries	119
Social security costs	14
Other pension costs (see note 14)	10
	143

## 5. Interest receivable and similar income

	1999 £'000
Interest receivable on bank deposits	58

## 6. Loss on ordinary activities before taxation

1999  
£'000

Loss on ordinary activities before taxation is stated after charging:

Depreciation charge for the period:

– tangible owned fixed assets 7

Auditors' remuneration:

– audit services 5

– non audit services 15

Charge for shares issued below market value 28

## 7. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

BAL issued warrants in the period. These warrants are not dilutive and therefore there is no difference between the loss per ordinary share and the diluted loss per ordinary share.

The amount of the loss and weighted average number of shares of BAL used in the calculations is set out below:

	Loss £'000	1999 Weighted average number of shares	Per-share amount
<b>Basic loss per share</b>			
Loss attributable to ordinary shareholders	(315)	3,752	£(83.95)

## Adjusted basic loss per share

As set out in note 24, the entire issued share capital of BAL was acquired by the Company which issued 1,000 ordinary shares in the capital of the Company for each BAL 'A' ordinary share held, and designated these as 'A' ordinary shares, and 1,000 ordinary shares in the capital of the Company for each BAL 'B' ordinary share held, and designated these as 'B' ordinary shares.

The additional basic loss per share is based upon the basic loss per share as calculated above, divided by 1,000, to illustrate the effect of the issue of 1,000 'A' and 'B' ordinary shares in the capital of the Company for each 'A' or 'B' ordinary share, respectively, in the capital of BAL, and the further sub-division of each 'A' ordinary share into 10 Ordinary Shares and each 'B' ordinary share into 10 Ordinary Shares.

	Earnings £'000	1999 Weighted average number of shares	Per-share amount
Loss attributable to ordinary shareholders	(315)	37,520,000	(0.8395)p

## 8. Tax on loss on ordinary activities

BAL had no tax charge due to the losses arising in the period. BAL's share of the tax charge of Fortune Cookie (UK) Limited amounted to £10,000.

BAL has a potential deferred tax asset arising primarily in respect of taxation losses that has not been recognised in the financial information.

## 9. Tangible fixed assets

	<i>Computer Equipment £'000</i>
<b>Cost or valuation</b>	
At 3 June 1999	–
Additions	14
<b>At 31 December 1999</b>	<b>14</b>
<b>Depreciation</b>	
At 3 June 1999	–
Charge for period	7
<b>At 31 December 1999</b>	<b>7</b>
<b>Net book value</b>	
<b>At 31 December 1999</b>	<b>7</b>

## 10. Fixed asset investments

	<i>Interests in associates £'000</i>
At 3 June 1999	–
Investments purchased for cash	1,881
Investments acquired through an exchange of shares	1,541
<b>At 31 December 1999</b>	<b>3,422</b>

### Interests in associates

The interests of BAL in associates at 31 December 1999 were as follows:

<i>Name of associate</i>	<i>Description of shares held</i>	<i>Proportion of nominal value of issued shares held %</i>	<i>Cost of investment</i>	
			<i>cash</i>	<i>shares</i>
Petspark Limited	'A' ordinary shares	33.3	–	1,541
Wowed Limited	'A' ordinary shares	25	520	–
Kalesta Limited	'A' ordinary shares	25	420	–
Leisurehub.com Limited	'A' ordinary shares	25	421	–
Fortune Cookie (UK) Limited	'A' ordinary shares	25	520	–
			1,881	1,541

An additional £8,000 of costs associated with the issue of shares has been charged to the share premium account.

The principal business activities of these associates, which are all incorporated in England, are as follows:

#### **Petspark Limited – acquired 22 September 1999**

Petspark.com is a European portal business focused on building an online community of pet enthusiasts.

#### **Wowed Limited (trading as Perfectday.com) – acquired 17 November 1999**

Perfectday.com is a portal site aimed at providing high quality content on all aspects of the wedding process.

#### **Kalesta Limited (the parent company of Easyart Limited) – acquired 26 November 1999**

Easyart.com is a one-stop Internet art shop to cater for the art print and framing needs of businesses and individuals.

#### **Leisurehub.com Limited – acquired 3 November 1999**

Leisurehub.com is a portal site for the leisure industry, which brings together buyers and sellers of leisure related products.

#### **Fortune Cookie (UK) Limited – acquired 1 December 1999**

Fortune Cookie is a web site design and development company.

## Associates

BAL's share of the net assets/(liabilities) of associates at 31 December 1999 and results of associates from acquisition to 31 December 1999 were as follows:

	Wowed Limited £'000	Petspark. com Limited £'000	Leisurehub. com Limited £'000	Kalesta Limited £'000	Fortune Cookie (UK) Limited £'000	Total £'000
Fixed assets	–	7	10	1	37	55
Current assets	121	2	118	84	234	559
Liabilities due within one year	–	(119)	(7)	(3)	(83)	(212)
Total share of net assets	121	(110)	121	82	188	402
Turnover	–	–	–	–	83	83
(Loss)/profit on ordinary activities before tax	(4)	(96)	(16)	(11)	47	(80)
(Loss)/profit on ordinary activities after tax	(4)	(96)	(16)	(11)	37	(90)

The financial information above is based on unaudited accounts of the associated undertakings.

## Goodwill

Goodwill has arisen, being the excess of the fair value of consideration paid for the associates acquired during the period over the fair value of the net assets of the associates at the date of acquisition. This has been capitalised and included within Investments in associates in the proforma together with the share of net assets of the associates. Goodwill arising on the above acquisitions is being written off over three years.

	£'000
<b>Goodwill</b>	
At 3 June 1999	–
Goodwill arising on associates acquired in the period	2,930
<b>At 31 December 1999</b>	2,930
<b>Amortisation</b>	
At 3 June 1999	–
Amortised in the period	166
<b>At 31 December 1999</b>	166
<b>Net book value</b>	
<b>At 31 December 1999</b>	2,764
<b>Investments in associates (pro forma)</b>	
Share of net assets	402
Goodwill	2,764
<b>At 31 December 1999</b>	3,166

## II. Debtors

	1999 £'000
<b>Amounts falling due within one year</b>	
Amounts owed by associates	104
Other debtors	244
Prepayments and accrued income	93
	441

## 12. Creditors: amounts falling due within one year

	1999 £'000
Trade creditors	8
Other taxation and social security	57
Other creditors	3
Accruals and deferred income	47
	115

## 13. Financial instruments

BAL's financial instruments comprise cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of holding the cash is to finance BAL's future investments and operations.

BAL does not enter into any derivative transactions such as interest rate swaps or forward foreign currency contracts.

It is and has been throughout the period under review, BAL's policy that no trading in financial instruments shall be undertaken. The main risks arising from BAL's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

BAL has financed its operations by the issue of share capital at a premium to nominal value. Available funds, after investments in associates and meeting capital requirements, have been invested in deposits earning a rate of interest.

### Liquidity risk

Short-term flexibility is achieved by using the cash deposits of the company.

### Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, except as noted under currency exposures.

### Interest rate risk of financial assets

	1999 Cash at bank and in hand £'000
Currency	
Sterling deposits	3,651
Clearing cash balance	(4)
At 31 December 1999	3,647

Sterling deposits of £3,000,000 within the above balance, receive a rate of interest fixed at 5.81%, £563,000 at 4.24% for a pre-set term. The remaining sterling deposits held receive a floating rate of interest tiered between 1.375% and 2.625% according to the size of the balance.

### Interest rate risk profile of financial liabilities

A formal overdraft facility has not been negotiated with the bankers, in view of the level of cash deposit held.

All BAL's creditors falling due within one year are either short-term items or do not meet the definition of a financial liability.

### Currency exposures

As at 31 December 1999 BAL had no currency exposures other than a loan to an associate of £85,930, denominated in US dollars. This balance has not been hedged.



## Fair values of financial assets and financial liabilities

At 31 December 1999 there was no difference between the book value and the fair value of the financial assets and financial liabilities.

### 14. Pension and similar obligations

BAL is in the process of establishing a defined contribution scheme for UK employees. The assets of the scheme are expected to be held in separate funds administered by Trustees. The total pension cost for BAL accrued in 1999 in respect of the proposed scheme was £10,000. BAL's contribution rate is expected to be 3% of salaries.

### 15. Called up share capital

	1999
	£
<b>Authorised</b>	
15,000 ordinary shares of 10p each	1,500
<b>Allotted, called up and fully paid</b>	
6,514 'A' ordinary shares of 10p each	651
2,215 'B' ordinary shares of 10p each	222
	873

On 3 June 1999 (date of incorporation) two ordinary shares of £1 each were issued.

On 22 September 1999 each of the two existing issued ordinary shares of £1 each were subdivided into 10 ordinary shares of 10 pence each and redesignated as 'B' ordinary shares of 10 pence each.

Also on 22 September the authorised share capital of BAL was increased from £1,000 to £1,500 by the creation of 5,000 ordinary shares of 10 pence each. The remaining 998 authorised (unissued) ordinary shares of £1.00 each were also subdivided into ordinary 10 pence shares. All of the unissued ordinary 10 pence shares are to be designated as 'A' ordinary, 'B' ordinary or 'C' ordinary shares (as appropriate) on issue in accordance with a resolution of the directors.

On 22 September 1999 3,257 'A' ordinary shares of 10 pence each were issued for £3,103,921 and 586 'B' ordinary shares of 10p each were issued at par.

Also on 22 September 1999 1,609 'B' ordinary shares of 10 pence each were issued for consideration of 6,667 Petspark Limited shares.

On 29 September 1999 3,257 'A' ordinary shares of 10 pence each were issued for £3,103,921.

The 'A' and 'B' shares rank *pari passu* in relation to voting and distributions.

## Warrants

BAL has a warrant instrument in place under which up to 975 warrants may be issued, each conferring the right upon holders to subscribe for one 'B' ordinary share of 10 pence. Warrants granted at 31 December 1999 were as follows:

<i>Date of Grant</i>	<i>Exercisable between</i>	<i>Number of shares</i>	<i>Exercise price</i> £
3 November 1999	3 Nov 1999 to 2 Nov 2002	87	953
26 November 1999	26 Nov 1999 to 25 Nov 2002	88	953
1 December 1999	1 Dec 1999 to 30 Nov 2002	304	953
6 December 1999	6 Dec 1999 to 5 Dec 2002	87	953
<b>Total at 31 December 1999</b>		<b>566</b>	

Following the acquisition of BAL by the Company (note 24) Warranholders agreed to exchange warrants in respect of BAL's shares for warrants in respect of the Company's shares.

## 16. Reserves

	<i>Share premium</i> 1999 £'000	<i>Profit and loss</i> <i>Account</i> 1999 £'000
At 3 June 1999	–	–
Premium on shares issued, net of costs	7,688	–
Deficit for the period	–	(315)
Issue of shares at below market value	–	28
<b>At 31 December 1999</b>	<b>7,688</b>	<b>(287)</b>

## 17. Reconciliation of movements in shareholders' funds

	1999 £'000
Opening shareholders' funds	–
Loss for the financial period	(315)
Issue of shares at below market value	28
Net proceeds of issue of ordinary share capital	7,689
Closing shareholders' funds	7,402

## 18. Cash flow from operating activities

	1999 £'000
Operating loss	(373)
Depreciation charge	7
Increase in debtors	(401)
Increase in creditors	115
Charge for the issue of shares at below market value	28
<b>Total net cash outflow from operating activities</b>	<b>(624)</b>

## 19. Reconciliation of movement in net debt

	<i>At</i> <i>3 June</i> <i>1999</i> £'000	<i>Cash</i> <i>flow</i> <i>1999</i> £'000	<i>At</i> <i>31 December</i> <i>1999</i> £'000
Cash deposit	–	3,651	3,651
Cash clearing balance	–	(4)	(4)
	–	3,647	3,647

## **20. Capital commitments**

BAL had no capital commitments at 31 December 1999.

## **21. Related party transactions**

During the period BAL paid for utilities and fixed assets on behalf of Petspark Limited, Leisurehub Limited, Fortune Cookie (UK) Limited, Wowed Limited and Kalesta Limited. Those services were then recharged to those companies at cost. The total cost to BAL was £15,147, all of which is included within Debtors at 31 December 1999. During the period BAL also provided accommodation and management services at no cost to these companies.

During the period BAL issued and exchanged 1,609 'B' ordinary shares to Stewart Dodd in consideration for 6,667 ordinary shares in Petspark Limited. This investment has been included in the accounts at a value of £1,541,162, including acquisition costs.

As part of the arrangement for acquiring an interest in Kalesta Limited, BAL committed to lend it £100,000 on request. None of this facility had been utilised at 31 December 1999.

During the period an intercompany loan was made to Petspark Limited for £85,000. This loan will be converted to 'A' preference shares in Petspark Limited in 2000.

## **22. Contingent liabilities**

As noted above BAL entered into an agreement with Kalesta Limited in which it committed to lend Kalesta Limited £100,000 on request. None of this facility had been utilised at 31 December 1999.

## **23. Major non-cash transactions**

As referred to in note 21, the consideration for the purchase of Petspark Limited was the exchange of 1,609 'B' ordinary shares in BAL for 6,667 ordinary shares in Petspark Limited.

## **24. Post balance sheet events**

On 14 January 2000 BAL invested £400,000 in Smile-on Limited, a company which provides dental information and services on a single web site for a wide community including dentists, orthodontists and hygienists.

On 6 March 2000, BAL invested £400,000 in, and provided a loan of £500,000 to, Metapack Limited, a company which provides one-stop supply solutions for e-tailers.

On 10 March 2000, BAL invested £500,000 in Hobomedia.com Limited, a company which provides information and services to the music, film and television industries.

On 1 March 2000, the entire issued share capital of BAL was acquired by the Company which issued 6,514,000 'A' ordinary 10p shares and 2,248,000 'B' ordinary 10p shares pursuant to the acquisition: 1,000 new ordinary shares in the capital of the Company were issued for each 'A' ordinary share held in BAL and designated as 'A' ordinary shares and 1,000 new ordinary shares in the capital of the Company were issued for each 'B' ordinary share held in Brainspark and designated as 'B' ordinary shares.

After 31 December 1999, BAL issued warrants conferring the rights upon holders to subscribe in aggregate for 376 'B' ordinary shares of 10p each. Following the acquisition of BAL by the Company, Warranholders agreed to exchange warrants in respect of each of BAL's 'B' ordinary shares for warrants in respect of 1,000 of the Company's 'B' ordinary shares.

Yours faithfully

PricewaterhouseCoopers  
Chartered Accountants

## PART III

### ACCOUNTANTS' REPORT ON BRAINSPARK PLC



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**PricewaterhouseCoopers**

1 Embankment Place  
London  
WC2N 6NN

The Directors  
Brainspark plc  
MWB Business Centre  
77 Oxford Street  
London  
W1R 1RB

The Directors  
J. Henry Schroder & Co. Limited  
120 Cheapside  
London  
EC2V 6DS

23 March 2000

Dear Sirs

#### **Brainspark plc**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 23 March 2000 ("the prospectus") of Brainspark plc ("the Company").

The Company was incorporated as Goodvend Limited on 15 February 2000, changed its name to Brainspark Limited on 2 March 2000 and was re-registered as a public limited company and changed its name to Brainspark plc on 6 March 2000. Save for the acquisition of Brainspark Associates Limited ("BAL") on 1 March 2000 and save for entering into the conditional agreements referred to in paragraph 9 of part IV of the prospectus, the Company has not yet commenced to trade, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

#### **Basis of preparation**

The financial information set out below is based on the financial records of the Company, to which no adjustment was considered necessary.

#### **Responsibility**

The financial records are the responsibility of the Company.

The directors of the Company are responsible for the contents of the prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial records, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial records underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Company and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of the Company as at the date stated.

### **Consent**

We consent to the inclusion in the prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule I of the Public Offers of Securities Regulations 1995.

# Financial information

## Balance sheet of the Company at 29 February 2000

29 February  
2000  
£

### Current assets

Debtors – unpaid share capital

\_\_\_\_\_ |

### Net assets

\_\_\_\_\_ |

### Capital and reserves

Called-up share capital

\_\_\_\_\_ |

### Equity shareholders' funds

\_\_\_\_\_ |

# Notes to the financial information

## Accounting policies

The balance sheet has been prepared in accordance with the historical cost convention.

## Share capital

	29 February 2000 £
<b>Authorised</b> 1,000 ordinary shares of £1 each	<u>1,000</u>
<b>Allotted, called up and fully paid</b> One ordinary share of £1	<u>1</u>

The Company was incorporated with an authorised share capital of £1,000, comprising 1,000 ordinary shares of £1 each, of which one ordinary share of £1 was issued to the subscriber to the memorandum of association.

## Post balance sheet events

On 1 March 2000, the authorised shares of £1 each were subdivided into 10 ordinary shares of 10 pence each. The 10 ordinary shares of 10 pence each arising from the subdivision of the subscriber share were redesignated as 'B' ordinary shares of 10 pence each. Also on 1 March 2000, the authorised share capital was increased to £1,500,000 by the creation of 14,990,000 ordinary shares of 10 pence each to be designated on issue as 'A', 'B' and 'C' ordinary shares. 6,514 'A' ordinary shares and 2,238 'B' ordinary shares were issued at par.

'A', 'B' and 'C' ordinary shares rank *pari passu* for the purposes of voting and dividends.

On 1 March 2000, the Company issued 6,514,000 'A' ordinary 10 pence shares and 2,248,000 'B' ordinary 10 pence shares pursuant to the acquisition of the entire issued share capital of BAL: 1,000 new shares in the capital of the Company were issued for each 'A' ordinary share held in BAL and designated as 'A' ordinary shares and 1,000 new shares in the capital of the Company were issued for each 'B' ordinary share held in BAL and designated as 'B' ordinary shares. A separate accountants' report on BAL is set out in Part II of the prospectus.

On 3 March 2000, the Company issued 1,079,700 'C' ordinary shares for cash consideration of £6.1 million.

Since 29 February 2000, the Company has granted warrants in respect of 928,000 'B' ordinary shares at an exercise price of £0.953 per share and in respect of 1,378,800 'B' ordinary shares at an exercise price of £5.71 per share. Warrants are exercisable at any time within three years of the date of grant.

Options have also been granted to Lyric Trust, a trust connected with the Landlord, to subscribe for such number of Ordinary Shares which represents 1.5 per cent. of the number of Ordinary Shares in issue on Admission. The exercise price payable is, in aggregate, £816,530 and may be exercised at any time in the five year period commencing on 15 April 2000 (provided that the Lease is completed).

By a special resolution of the Company passed on 20 March 2000, conditionally upon Admission taking place not later than 7 April 2000 or such later date (being not later than 11 April) as the Directors may decide and with effect immediately prior to Admission, and by resolutions passed at general meetings of the holders of each class of shares in the capital of the Company:

- each of the 'A' ordinary shares of 10 pence each, each of the 'B' ordinary shares of 10 pence each and each of the 'C' ordinary shares of 10 pence each was redesignated as an ordinary share of 10 pence having the rights set out in the articles of association adopted pursuant to such special resolution;
- each of the issued and each of the authorised but unissued ordinary shares of 10 pence each arising from the redesignation referred to above was sub-divided into 10 Ordinary Shares; and
- the authorised share capital of the Company was increased by £350,000 to £1,850,000, divided into 185,000,000 Ordinary Shares by the creation of 35,000,000 new Ordinary Shares.

The Company has issued Warrants to employees and to certain managers of its associates ("Key Partner Company Managers"). On each occasion, Warrants have been issued with an exercise price set by reference to the market value of the Company's shares prevailing at the time of grant. In most cases, the Warrantholders have acquired their Warrants by reason of their employment and, on exercising their Warrants, will become liable to income tax for an amount representing tax on the difference between the market value on the date of exercise of the underlying Ordinary Shares and the Warrant exercise price. Under current UK tax legislation, the Company will also be required to account for National Insurance (currently charged at the rate of 12.2 per cent.) on the Warrantholders' notional gain on exercise.

If the Warrants were not exercised on Admission and the Company's share price were to rise after Admission, the Company's National Insurance liability would continue to rise. To the extent that the Company cannot predict when a Warrantholder will exercise his Warrants, this liability would represent an unquantifiable liability from year to year until the Warrants lapse.

The Company has set up an independently-operated employee benefit trust in Jersey for the benefit of employees and former employees of the Company and its subsidiaries and their dependants. The Company will make a loan of approximately £5.3 million (on an interest-free basis) to the trustees who will acquire Ordinary Shares from the Key Partner Company Managers, and two Warrantholders who are not employees, all of whom must under the terms of their Warrants exercise them prior to Admission. The trustees have agreed to acquire 3,928,510 Ordinary Shares at the Placing Price from the Key Partner Company Managers and the non-employee Warrantholders with the funds loaned to them by the Company. The Key Partner Company Managers and the non-employee Warrantholders will sell to the trustees only such number of their Ordinary Shares (arising on the exercise of their Warrants) as are required by them to satisfy their Warrant exercise costs and the income tax liability arising therefrom. The recoverability of the loan from the employee benefit trust will depend upon, *inter alia*, the future market value of the shares. The Company will receive a total of approximately £1.9 million from the proceeds of the exercise of these warrants.

A National Insurance liability of the associated companies of approximately £1.1 million will arise in respect of those Warrants. The Company will provide an indemnity to the associates for this National Insurance liability. The trustees of the employee benefit trust have agreed to dispose of some of the Ordinary Shares they acquire and use the proceeds arising from such disposal to discharge the Company's National Insurance liability that arises as a consequence of the remaining Warrants held by employees being exercised.

As part of the Placing, Richard Davidson has elected to sell 125,017 Ordinary Shares to the employee benefit trust at the Placing Price and Noah Freedman has elected to exercise 188,154 Warrants and to sell the Ordinary Shares arising from such exercise to the employee benefit trust at the Placing Price. This will enable them to satisfy their tax liabilities that may arise from their subscription for shares on 22 September 1999.

Yours faithfully

PricewaterhouseCoopers  
Chartered Accountants

File name: 615561

Date: 4/4/0 (12:56:28)

Operator: BARRY

Hyway Pennington Financial



## PART IV

### ADDITIONAL INFORMATION

#### 1. Directors' responsibility

The Directors whose names appear on page 6 accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The business address of each of the Directors is MWB Business Exchange, 77 Oxford Street, London W1R 1RB. Their respective functions are shown on page 6 of this document.

#### 2. The Company and its subsidiary

- (a) The Company was incorporated under the Companies Act 1985 ("the Act") on 15 February 2000 as a private company limited by shares with the name of Goodvend Limited and registered in England and Wales with number 3926192.

On 2 March 2000, the Company changed its name to Brainspark Limited and on 6 March 2000 the Company was re-registered as a public limited company under the Act and its name was changed to Brainspark plc.

- (b) The Company's registered office is at 10 Old Bailey, London EC4M 7NG.
- (c) The Company has one subsidiary undertaking, BAL, which is directly wholly owned, is incorporated in England and Wales as a private limited company and has its registered office at 10 Old Bailey, London EC4M 7NG.

#### 3. Share capital

- (a) The authorised share capital of the Company on incorporation was £100 divided into 100 ordinary shares of £1 each, of which one share was issued to the subscriber of the memorandum of association.
- (b) Since its incorporation, there have been the following changes in the issued and authorised share capital of the Company:
- (i) By a special resolution of the Company passed on 1 March 2000:
- (a) each of the ordinary shares of £1 each was sub-divided into 10 ordinary shares of 10 pence each to be re-designated as 'A' ordinary shares, 'B' ordinary shares or 'C' ordinary shares upon issue. The 10 ordinary shares of 10 pence each arising upon the sub-division of the subscriber share were re-designated as 'B' ordinary shares of 10 pence each;
- (b) the authorised share capital of the Company was increased from £100 to £1,500,000 by the creation of 14,990,000 ordinary shares of 10 pence each.
- (ii) On 1 March 2000, the Company issued 6,514 'A' ordinary shares of 10 pence each and 2,238 'B' ordinary shares of 10 pence each at par to the existing shareholders.
- (iii) On 1 March 2000, the Company issued 6,514,000 'A' ordinary shares and 2,248,000 'B' ordinary shares pursuant to the acquisition of the entire issued share capital of BAL described in paragraph 9 below.
- (iv) On 3 March 2000, the Company issued 1,079,700 'C' ordinary shares pursuant to a subscription for such shares by new investors and members of the Advisory Board, to raise in aggregate approximately £6.1 million.
- (c) By a special resolution of the Company passed on 20 March 2000, conditionally upon Admission taking place not later than 7 April 2000 or such later date (being not later than 11 April 2000) as the Directors may decide and with effect immediately prior to Admission, and by resolutions passed at general meetings of the holders of each class of shares in the capital of the Company:

- (i) each of the A ordinary shares of 10 pence each, each of the B ordinary shares of 10 pence each and each of the C ordinary shares of 10 pence each was redesignated as an ordinary share of 10 pence having the rights set out in the articles of association adopted pursuant to such special resolution;
  - (ii) each of the issued and each of the authorised but unissued ordinary shares 10 pence each arising from the redesignation referred to above was sub-divided into 10 Ordinary Shares;
  - (iii) the authorised share capital was increased by £350,000 to £1,850,000, divided into 185,000,000 Ordinary Shares by the creation of 35,000,000 new Ordinary Shares;
  - (iv) the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £569,561, such authority to expire on the fifth anniversary of the date of such special resolution. This general authority will allow the Directors to allot the Placing Shares, and to allot relevant securities with a nominal value equal to approximately one third of the issued share capital as enlarged by the Placing. The Directors intend to exercise the said authority in respect of the issue of up to 16,000,000 Ordinary Shares pursuant to the Placing, but otherwise have no present intention to exercise the authority; and
  - (v) the Directors were empowered, pursuant to the authorities described in paragraph (iii) above, to allot equity securities (as defined in section 94(2) of the Act) in connection with the Placing, in respect of rights and other pre-emptive issues and otherwise up to an aggregate nominal amount of £61,434, being approximately 5 per cent. of the issued share capital as enlarged by the Placing, as if section 89(1) of the Act did not apply to such allotment, in the period ending on the fifth anniversary of the passing of such special resolution. The Directors do not have any present intention to exercise this dis-application authority, other than pursuant to the Placing, but think it prudent to maintain a degree of flexibility for the future.
- (d) As at the date of this document, and following Admission, the Company's authorised and issued share capital is and will be as follows:

**At Present**

	<i>Nominal Value</i>	<i>No. of Ordinary Shares*</i>
Authorised	£1,500,000	150,000,000
Issued and fully paid	£985,046.20	98,504,620

\* The number of Ordinary Shares prior to Admission above takes into account the capital reorganisation effected (conditionally upon Admission) by the resolution referred to in paragraph 3(c) above.

**Following Admission**

	<i>Nominal Value</i>	<i>No. of Ordinary Shares</i>	<i>% of issued share capital under Warrant</i>
Authorised	£1,850,000	185,000,000	
Issued and fully paid	£1,230,828	123,082,774	13.6%

- (e) The provisions of section 89(1) of the Act which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraph 3(c) above.
- (f) Save as disclosed in paragraph 5 no share of the Company or any subsidiary is under option or has been agreed conditionally or unconditionally to be put under option.

- (g) Following Admission, the following categories of persons will have preferential subscription rights for additional portions of the authorised but unissued share capital:

	<i>Warrants*</i>
Directors	8,001,846
Other Employees	6,608,000
Key Partner Company Managers	–
Schroders	100,000
Lyric Trust (see paragraph 9 below)	1,846,242

\* the number of Warrants above takes into account the capital reorganisation effected (conditionally upon Admission) by the resolution referred to in paragraph 3(c) above.

#### **4. Memorandum and Articles of Association**

The memorandum of association of the Company provides that the Company's principal object is to carry on the business of a general commercial company. The objects of the Company are set out fully in clause 3 of the memorandum of association which is available for inspection at the address specified in paragraph 15 below.

The Articles of Association, which were adopted, subject to Admission, by a special resolution of the Company passed on 20 March 2000, contain provisions *inter alia* to the following effect:

(a) *Voting*

Subject to any rights or restrictions as to voting attached to any class of shares at any general meeting:

- (i) on a show of hands every member who is present in person and every person who is the duly authorised representative of one or more corporations shall have one vote; and
- (ii) on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder. A member is not entitled to vote if any calls or other monies due in respect of his shares remain unpaid and a shareholder may be disenfranchised where he, or a person appearing to be interested in shares fails to comply with a notice from the Company requiring him to indicate the capacity in which he holds such shares or any interest in them.

(b) *Dividends, distributions and return of capital*

Dividends may be declared by ordinary resolution but shall in no event exceed the amount recommended by the directors.

Subject to the rights of persons (if any) entitled to shares with special dividend rights, all dividends will be paid according to the amounts paid up (other than amounts paid up in advance) on the shares in respect of which the dividend is paid.

The board may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the Company. If any member or any other person appearing to be interested in shares held by that member representing 0.25 per cent. or more of the class of shares concerned shall be in default in supplying to the Company any information required by any notice given pursuant to section 212 of the Act, the directors may by notice to such member direct that any dividend (or any part thereof) or other monies payable on such shares shall be retained by the Company and that any right to receive any additional shares in the Company in lieu of any dividends in accordance with the Articles shall be of no effect.

For so long as the Company has only one class of shares, on a liquidation of the Company the holders of shares are entitled *pari passu* amongst themselves in proportion to their shareholdings and to the amounts paid up or credited as paid up on their shares to share in any surplus assets of the Company.

(c) *Unclaimed dividends*

Any dividends unclaimed may be used for the benefit of the Company until claimed. Any dividend which is still unclaimed twelve years after having become due for payment shall be forfeited and shall revert to the Company.

(d) *Untraced shareholders*

The Company may sell any shares in the Company of a member who is untraceable if, during a period of twelve years:

- (i) no cheque order or warrant addressed to the member or the person entitled to such shares by transmission has been cashed;
- (ii) no communication has been received from such member or any person entitled to the shares by transmission;
- (iii) the Company has paid at least three cash dividends (whether interim or final) and no such dividend has been claimed; and
- (iv) the Company gives notice to the London Stock Exchange and in both a national newspaper and a newspaper circulating in the area where the member's last known address is located of its intention to sell.

(e) *Variation of rights*

If at any time the capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class of share may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, with the consent in writing of the holders of three-quarters of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

(f) *Alteration of capital*

The Company may by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all or any of its share capital;
- (iii) cancel any shares where at the date of passing of the resolution no person has taken, or agreed to take, such shares and diminish the amount of its capital by the amount of shares so cancelled; and/or
- (iv) sub-divide its shares or any of them into shares of smaller amounts.

The Company may by special resolution reduce its share capital or any capital redemption reserve or share premium account in any manner and with and subject to any conditions, authorities and consents required by law.

(g) *Transfer of shares*

All transfers of certificated shares shall be effected by instrument in writing, in any usual or common form or in any other form acceptable to the directors and shall be signed by or on behalf of the transferor and, if the share is partly paid, by the transferee. Uncertificated shares may be transferred in accordance with the Uncertificated Securities Regulations 1995 and the facilities and requirements of the relevant scheme concerned. The directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of a share:

- (i) to more than four joint holders;
- (ii) where the share is not fully paid provided that such action does not prevent dealings in the shares from taking place on an open and proper basis; and
- (iii) on which the Company has a lien.

The Articles contain no restrictions on the free transferability of fully paid shares (unless to an infant or a person in respect of whom a receiving order or adjudication order in bankruptcy has been made which remains undischarged or a person who is a patient within Part VII of the Mental Health Act 1983) provided that the instrument of transfer is in favour of not more than four transferees, is duly stamped (if so required), the provisions in the Articles relating to the execution and deposit of instruments of transfer, relevant share certificates and other evidence as to title reasonably required by the board have been complied with and the member is not in default of any notice duly served under section 212 of the Act in circumstances described in the Articles.

(h) *Directors*

- (i) Each of the directors is entitled to receive by way of ordinary remuneration for his services in each year such sum as the board may determine provided that such fees shall not exceed in aggregate £250,000 per annum or such other figure as the Company in general meeting from time to time agree. The directors are also entitled to be repaid all travelling, hotel and other expenses necessarily incurred by them in or about the performance of their duties as directors. The board may also grant additional special remuneration to any director who, being called upon, performs any special duties outside his ordinary duties as a director.
- (ii) A director shall not be disqualified from his office by contracting with the Company, nor is any contract or arrangement entered into on behalf of the Company in which any director is any way interested liable to be avoided, nor is any director so contracting or being so interested liable to account to the Company for the profit realised thereby, but the nature of his interest must be declared by the director at a meeting of the board.
- (iii) Save as provided below, a director may not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A director will not be counted in the quorum for a meeting in relation to any resolution on which he is debarred from voting.
- (iv) A director shall (in the absence of a material interest other than those indicated below) be entitled to vote (and be counted in a quorum) in respect of any resolution concerning any of the following matters:
  - (aa) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
  - (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (cc) any proposal concerning an offer of shares or debentures or other securities in or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
  - (dd) any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of a beneficial interest in 1 per cent. or more of any class of share capital of such company or of the voting rights available to the members of the relevant company;
  - (ee) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefit scheme which is approved by or subject to the approval of the Inland Revenue or relating to any arrangement for the benefit of employees generally which does not accord to him as a director any privilege or advantage not generally accorded; or
  - (ff) any proposal concerning the purchase and /or maintenance of an insurance policy under which a director may benefit.
- (c) There is no requirement for directors to hold qualification shares.
- (d) The Articles do not specify any age limit for directors, who may remain in office when they are over 70.

(i) *Borrowing powers*

The directors may exercise all the powers of the Company to borrow money, and to mortgage or charge the whole or any part of its undertaking, property and uncalled capital, and to issue debentures and other securities. The directors must ensure that the aggregate

amount for the time being all borrowings of the Company and its subsidiaries of all borrowing of the Company and its subsidiaries (other than owing by the Company and any of its subsidiary undertakings in respect of intra group borrowings) shall not at the date of any such borrowings, without the previous sanction of an ordinary resolution of the Company, exceed the greater of £50 million and to three times the Adjusted Capital and Reserves (as defined in the Articles).

## 5. Directors' and other interests

- (a) The interests, as at 22 March 2000 (latest practicable date before publication of this document), which (i) have been notified by each Director to the Company pursuant to section 324 or section 328 of the Act, (ii) are required pursuant to section 325 of the Act to be entered in the Register referred to therein; or (iii) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, in the securities of the Company, all of which are (except as stated below) beneficial, were, and the interests as aforesaid of each such Director and their connected persons upon Admission will be, as follows:

<i>Director</i>	<i>Current Number of Ordinary Shares*</i>	<i>Percentage of current issued ordinary share capital</i>	<i>Number of Ordinary Shares following Admission</i>	<i>Percentage of issued ordinary share capital on Admission</i>
Barbara Thomas	330,330	0.3	330,330	0.3%
Stewart Dodd	16,306,290	16.6	16,306,290	13.3%
Noah Freedman	3,423,420	3.5	3,423,420	2.8%
Alwyn Welch	—	—	—	—
Sheryl Daniels-Young	—	—	—	—
Martin Fiennes	—	—	—	—

\* The number of Ordinary Shares prior to Admission above takes into account the capital reorganisation effected (conditionally upon Admission) by the resolution referred to in paragraph 3(c) above.

- (b) In addition to the Directors' interests described in paragraph above, the Directors are aware of the following interests which will represent three per cent. or more of the issued share capital of the Company, immediately following Admission:

<i>Name</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital following Admission</i>
HATT III L.P.	26,086,606	21.2%
Cross Atlantic Technology Fund L.P.	35,229,540	28.6%
Uni-invest Special Aktier	6,516,510	5.3%

- (c) As at 22 March 2000 (the latest practicable date prior to the publication of this document) the following Warrants were held by the Directors:

<i>Name</i>	<i>Number of Warrants*</i>	<i>Series</i>	<i>Exercise Price</i>	<i>Date of Grant**</i>
Stewart Dodd	1,650,000	Series B	57.1p	1 March 2000
Noah Freedman	500,000	Series B	57.1p	1 March 2000
Noah Freedman	1,300,000	Series A	9.53p	1 March 2000
Alwyn Welch	4,740,000	Series B	57.1p	1 March 2000

\* The number of Warrants (and the exercise price of such Warrants) held prior to Admission above takes into account the capital reorganisation effected (conditionally upon Admission) by the resolution referred to in paragraph 3(c) above.

\*\* These warrants were granted at the time of the Group's pre-flotation share capital re-organisation further details of which are set out in paragraph 3 above.

- (d) As at 22 March 2000 (the latest practicable date prior to the publication of this document) the following Warrants set out below had been granted to Key Partner Company Managers and were outstanding. On Admission, these Warrants will be exercised and the Key Partner Company Managers will sell to the trustees of an employee benefit trust, such number of Ordinary Shares (at the Placing Price) required to satisfy the cost of exercise of the Warrants and the income tax liability arising therefrom. The number of Ordinary Shares held by the Key Partner Company Managers, after such sale, on Admission is set out below:

<i>Name</i>	<i>Number of Ordinary Shares under Warrant*</i>	<i>Series</i>	<i>Exercise Price* (p)</i>	<i>Number of Ordinary Shares held on Admission</i>
Timothy Batstone	870,000	Series A	9.53	482,203
Justin Cooke	870,000	Series A	9.53	482,203
Noam Tamir	870,000	Series A	9.53	482,203
Nicholas Barnard	870,000	Series A	9.53	482,203
Jasper Judd	220,000	Series A	9.53	121,936
	70,000	Series B	57.1	22,815
Anne-Marie Bainbridge	150,000	Series A	9.53	83,139
Simon Matthews	220,000	Series A	9.53	121,936
	70,000	Series B	57.1	22,815
Patrick Davies	150,000	Series A	9.53	83,139
Dudley Moore-Radford	430,000	Series B	57.1	140,146
Iain Beveridge	348,000	Series B	57.1	121,421
Michael Hall	261,000	Series B	57.1	85,065
Patrick Wall	261,000	Series B	57.1	85,065
Alf Nwawudu	290,000	Series B	57.1	94,517
Damien Webster	290,000	Series B	57.1	94,517
Oliver Cornes	290,000	Series B	57.1	94,517

\* The number of Warrants (and the exercise price of such Warrants) held prior to Admission above takes into account the capital reorganisation effected (conditionally upon Admission) by the resolution referred to in paragraph 3(c) above.

- (e) In addition to the Warrants referred to in paragraphs 5(c) and 5(d) above, the Company has granted 2,020,000 Series A Warrants and 4,588,000 Series B Warrants to the Employees. James Buchanan, the founder of PerfectDay, and James McNiven, the founder of Kerb Limited, a web design company, were granted warrants to subscribe for 'B' ordinary shares of 10p each in the capital of Brainspark Associates Limited. The warrant instrument constituting these warrants has been amended as part of the Group's pre-flotation reorganisation so that upon exercise of the warrants, the Company will be entitled to acquire the shares in Brainspark Associates Limited issued to Mr Buchanan or Mr McNiven. Taking into account the capital reorganisation referred to in paragraph 3(c) above, the exercise of these warrants (at an exercise price of 9.53p per share) will result in the allotment of 870,000 Ordinary Shares to each of Mr Buchanan and Mr McNiven of which a total of 492,998 will be sold to satisfy the exercise price of the warrants and the individual tax liabilities arising on exercise.
- (f) Save as set out below, or as disclosed elsewhere in this document, no directorships of any company, other than the Company, have been held or occupied over the previous five years by any of the Directors, nor over that period has any of the Directors been a partner in a partnership:

<i>Director</i>	<i>Current Directorships/ Partnerships</i>	<i>Former Directorships/ Partnerships</i>
Barbara Thomas	Net Investor PLC Axon Group PLC Friends Provident Life Office Capital Radio PLC Second London American Trust PLC Allders PLC ENIC PLC The British Food Trust United Asset Management Corporation Livenote Technologies Limited The National Dried Fruit Trade Association (UK) Limited Alcove London Limited Brainspark Associates Limited Axon Solutions Limited Quintain Estates & Development plc Portmeirion Potteries (Holdings) PLC	Smith Bernal Group Limited Insignia Richard Ellis Europe Limited Alldays PLC Yorkshire Food Group PLC United Optical Industries Limited London American Growth Trust PLC Atlantic Group Limited Whitworths Group Limited Weigh A Way Limited Carbutt & Co. Limited Chalice Food Limited Whitworths Ingredients Limited Trent Foods Limited Whitworths Fruit Produce Limited
Sheryl Daniels-Young	Brainspark Associates Limited Zeus Technology Limited Cross Atlantic Capital Partners (UK) Limited Cross Atlantic Technology Fund L.P.	None
Martin Fiennes	L.P. Management Limited Cherwell Scientific Limited Fiennes Farming Co Ltd FOL Networks Limited Brainspark Associates Limited Focus Solutions Group PLC Randolph Avenue Estate Management Limited	H.B. Leisure Holdings Limited H.B. Leisure Limited Baytrex Limited Heron Research Limited
Stewart Dodd	Wowed Limited Kalesta Limited Petspark Limited Fortune Cookie (UK) Limited Metapack Limited Brainspark Associates Limited Hobmedia.com Limited	WestLB Panmure



<i>Director</i>	<i>Current Directorships/ Partnerships</i>	<i>Former Directorships/ Partnerships</i>
Alwyn Welch	The Information Technology National Training Organisation	Cap Gemini Deutschland GmbH CGS Holdings Ltd Cap Gemini UK plc Hoskyns Group plc Hoskyns Systems Ltd Hoskyns Limited The Instruction Set Ltd Cap Gemini Asia Pacific Pte Ltd Cap Gemini Singapore Pte Ltd Cap Gemini Malaysia Sdn Bhd Cap Gemini Hong Kong Limited
Noah Freedman	Leisurehub.com Limited Smile-on Limited Brainspark Associates Limited	None

(g) No Director:

- (i) has any unspent convictions in relation to indictable offences; or
- (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or
- (iii) has been a director of any company which, at the time or within 12 months after his ceasing to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- (iv) has been a partner of any partnership which, at the time or within 12 months after his ceasing to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- (v) has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- (vi) has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## **6. Directors' service contracts and emoluments**

- (a) Under the terms of a service agreement dated 22 September 1999, Stewart Dodd is employed as chief executive officer of BAL. He is entitled to receive a salary of £135,320 per annum. The agreement is terminable upon at least six months' notice by either party.
- (b) Under the terms of a service agreement dated 22 September 1999, Noah Freedman is employed as chief technology officer of BAL. He is entitled to receive a salary of £98,000 per annum. The agreement is terminable upon at least six months' notice by either party.
- (c) Under the terms of a service agreement dated 6 February 2000, Alwyn Welch is employed as chief operating officer of BAL. He is entitled to receive a salary of £130,000 per annum. The agreement is terminable upon at least six months notice by either party.
- (d) By an agreement dated 1 March 2000, Barbara Thomas was appointed non-executive chairman of the Company. Barbara Thomas is entitled to an annual fee of £50,000 per annum and her engagement will continue until terminated by either party or six months contract. Under the terms of their letters of engagement as non-executive directors of the Company, dated 20 March 2000, Sheryl Daniels-Young and Martin Fiennes are each entitled to an annual fee of £15,000 per annum. Their engagement will continue until the first annual general meeting of the Company and thereafter unless and until terminated by 3 months notice expiring on or after the date of that meeting.

- (e) The aggregate emoluments of the directors of the Company (including benefits in kind) for the year ended 31 December 1999 amounted to £55,000.
- (f) The aggregate emoluments of the Directors for the financial period ending 30 June 2000 is expected to be approximately £221,660 under arrangements in force at the date of this document.
- (g) There are no service agreements existing or proposed between the Directors and the Company or BAL which are not terminable within one year by the relevant company without payment of compensation (other than statutory compensation).
- (h) There is no arrangement under which any Director has agreed to waive future emoluments and there has been no waiver of emoluments during the financial year immediately preceding the date of this document.

## 7. Warrants

- (a) The Series A Warrants and the Series B Warrants were constituted respectively by an instrument relating to the issue of Series A Warrants and an instrument relating to the issue of Series B Warrants, each of which was executed by way of deed poll by the Company on 1 March 2000.
- (b) Save in respect of the exercise price applicable to the Warrants, each of the Series A Warrants and Series B Warrants are subject to the same terms and conditions.
- (c) Series A Warrants are exercisable at any time within three years of the date of grant at an exercise price of 9.53 pence per ordinary share (assuming that the capital reorganisation described in paragraph 3(c) above has been effected) (subject to adjustment in the event of any issue of equity shares of the Company by way of capitalisation of profits or reserves or by way of rights or any consolidation or sub-division or reduction of capital.)
- (d) Series B Warrants are exercisable at any time within three years of the date of grant at an exercise price of 57.1 pence per share (assuming that the capital reorganisation described in paragraph 3(c) above has been effected) (subject to adjustment in the event of any issue of equity shares of the Company by way of capitalisation of profits or reserves or by way of rights or any consolidation or sub-division or reduction of capital).
- (e) The following is a summary of the principal terms and conditions which apply to the Warrants:

- (i) Conditions of Warrants

The rights of a Warrantholder to exercise the Warrants may be subject to conditions imposed in the letter from the Company making an offer of Warrants. In the case of the death of a Warrantholder at any time within the exercise period the Warrants may (subject to any conditions imposed thereon) be exercised by personal representatives of the Warrantholder up to but not later than six months after the date of death.

The Board may on a sale (as defined in the articles of association of the Company in force on 1 March 2000) or in other appropriate circumstances (as determined by the Board in its absolute discretion) subsequently waive or amend any condition imposed in relation to the financial performance of the Company or any other company in which the Company may from time to time make an investment, provided that this is not to the disadvantage of the Warrantholder.

- (ii) Exercise of Warrants

A Warrant shall be exercised by the Warrantholder by giving notice in writing to the Board (or any person as the Board may nominate) in the form prescribed by the Board from time to time, specifying the number of Warrants in respect of which it is exercised, together with, *inter alia*, a remittance for the subscription price of the shares in respect of which the Warrants are exercised.

Shares issued on exercise of a Warrant shall rank *pari passu* in all respects of the shares of the same class in issue on the date of exercise, except that they will not entitle holders to receive any dividends or other distributions declared for payment to holders of such shares on the register of members on a record date which precedes the date of exercise.

(iii) Availability of authorised capital

The Company is obliged to keep available sufficient of its authorised unissued ordinary shares to satisfy all outstanding Warrants and to obtain all necessary consents under the Act, the Articles of Association of the Company from time to time or otherwise to enable it to issue shares on exercise of the same.

(iv) Sale or flotation

Unless otherwise agreed by the Board, a Warrant will lapse in the event of a sale or flotation (as defined in the articles of association of the Company in force on 1 March 2000) to the extent that it is not exercised at the time of completion of the sale or is part of the flotation arrangements.

If following a flotation any Warrants remain outstanding and any person (a) makes a general offer to acquire all the shares in the Company of the same class as the shares to which the Warrants relate (other than any shares held by the offeror/or any person controlled by the offeror and/or any person acting in concert with the offeror); or (b) acquires or becomes unconditionally entitled to acquire at least 90 per cent. of the issued ordinary share capital of the Company; or (c) becomes bound or entitled to acquire shares in the Company under Sections 428 to 430 of the Act, the Board is obliged to promptly notify Warrantheolders of such event, and any warrant may, subject to the conditions in respect of the exercise period and the period within which Warrants may be exercised by personal representatives of a deceased Warrantheolder, be exercised within 42 days after the date the offer becomes or is declared unconditional or; if (b) or (c) above applies and if later, the date of the relevant event. Any such warrants not exercised within the applicable period shall in the case of paragraph (a) but not paragraphs (b) or (c) applies nevertheless continue to be exercisable or (in the case where (b) or (c) above applies) shall lapse to the extent not exercised by the end of that period.

(v) Liquidation

If a general meeting of the Company passes a resolution of the voluntary winding up of the Company, a Warrantheolder shall, if it is a term of his offer letter or with the consent of the Board and notwithstanding that any condition imposed in relation to financial performance of the Company or any other company in which the Company may from time to time make an investment has not been fulfilled, exercise this Warrant within 28 days after such resolution had passed (provided he does so within three years from the grant in the case of Series A Warrants, and five years from the date of grant in the case of Series B Warrants. Any Warrants not exercised shall lapse, but Warrantheolders who have exercised their Warrants shall be entitled to share in the assets of the Company with existing shareholders in the same manner as they would have been entitled had they actually held the shares before the resolution was passed.

A Warrant shall lapse in the event of the Company being wound up otherwise than on a voluntary winding up.

(vi) Duration of the Warrants

No Warrant may be granted later than 1 March 2005.

(vii) Assignment

The Warrants are personal to the Warrantheolder, and are non-assignable.

- (f) As part of the Group's pre-flotation share capital reorganisation, the Company acquired the entire issued share capital of BAL on 1 March 2000 pursuant to the agreement referred to paragraph 10(e) below. Prior to this date, BAL had granted 928 Warrants to subscribe for 'B' ordinary shares in BAL ("B Shares") at an exercise price of £953 per share and had agreed to grant approximately 1,700 Warrants over £5,710 per share. These warrants no longer in force as each such Warrantheolder or proposed warrantheolder has been granted equivalent Warrants by the Company as set out in paragraphs 5(c) and 5(e) above.

## 8. Share option scheme

### (a) The Brainspark plc Executive Share Option Scheme (“the Executive Scheme”)

The Scheme was adopted by the board of directors of the Company on 9 March 2000 and is divided into two sections. An application has been made for approval by the Inland Revenue. Application for approval of Section A has been submitted to the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988. Section B is not designed for Inland Revenue approval and is intended for executives who have, or are to be granted, options in excess of the individual limits permitted under Inland Revenue approved schemes. The principal terms of the Scheme are as follows.

#### (i) Eligibility

Options to acquire Ordinary Shares in the Company may be granted at the discretion of a remuneration committee of the board of directors of the Company (“the Committee”) to any employee or director of the Company or its subsidiaries who work at least (in the case of employees) 20 hours per week and (in the case of directors) 25 hours per week.

#### (ii) Scheme limits

Over any ten year period ending on a date of grant, the total number of shares issued or issuable pursuant to grants made under the Executive Scheme shall not (when aggregated with the number of Ordinary Shares issued and issuable under any employee share scheme other than a savings related scheme) exceed five per cent. of the issued ordinary share capital of the Company and, over the same period, shall not (when aggregated with the number of Ordinary Shares issued and issuable under any employee share scheme) exceed ten per cent. of the issued ordinary share capital of the Company.

#### (iii) Individual limits

Under the approved section of the scheme, grants of options will be limited to £30,000 worth of Ordinary Shares per employee, calculated by reference to the market value of the Company’s shares at the time the options are granted.

Under the unapproved section of the Scheme, no option may be granted if its subscription price, when aggregated with the aggregate subscription prices of shares issued and issuable to an individual pursuant to options (other than All Employee Scheme) and granted within the previous ten years, exceeds four times his annual salary at that time or, if greater, his actual earnings for the twelve month period ended on the relevant date of grant.

#### (iv) Timing of grants

Options may be granted under the approved section of the Scheme within 42 days of the approval of the Executive Scheme by the Inland Revenue and, under the unapproved section of the Scheme, within six weeks of its adoption by the Company. Thereafter, options may be granted within 42 days after publication of the interim or final results of the Company, on the publication of listing particulars, a prospectus or a document containing equivalent information in relation to Ordinary Shares save where the Committee considers the circumstances to be sufficiently exceptional to justify the grant of options outside those periods. Prior to issuing invitations, the Committee must also have regard to any code of dealing adopted by the Company in accordance with the requirements of the London Stock Exchange or, in the absence of adoption such a code, the Model code set out in the AIM Rules published by the London Stock Exchange.

#### (v) Exercise price

The exercise price is determined by the Committee at the time that the invitation is issued and must not be less than the market value of a share at that time (or its nominal value, if higher).

The exercise price may be adjusted in the event of a bonus issue, rights issue, subdivision or other alteration of share capital subject to the written confirmation of the auditors that such adjustment is fair and reasonable and provided that it does not result in a share being issued at less than its nominal value. Any such adjustment must first be approved by the Inland Revenue.

(vi) Performance conditions

The exercise of an option may be made wholly or partly subject to the attainment by one or more of the Company and its subsidiaries or of the option holder of a specified level of profit or performance or such other objective conditions as are considered by the Committee to be appropriate. The Committee may, subject to Inland Revenue approval, subsequently amend any such condition provided that an event or events that occur may cause the Committee to consider that a different condition would be a fairer measure of performance.

(vii) When options may be exercised

In normal circumstances an option granted under Section A may be exercised three years after its grant and it must be exercised before the tenth anniversary of its grant.

However, options will become exercisable immediately (notwithstanding the non-fulfilment of any performance condition) on the death of participant or on his ceasing to be an eligible employee by reason of ill health or retirement. The Committee also has a discretion to permit exercise were the participant ceases to be an eligible employee for any other reason.

Options will also become exercisable (notwithstanding the non-fulfilment of any performance condition) in the event of a takeover, takeover offer, amalgamation, reconstruction or winding-up of the Company. Alternatively, on a takeover options may, with the agreement of an acquiring company, be exchanged for options over shares in the acquiring company.

(viii) Rights attaching to the shares

Shares issued pursuant to the Executive Scheme will rank *pari passu* in all respects with the ordinary shares already then in issue save as regards any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the option.

Options are not transferable.

(ix) Administration and amendment

The Executive Scheme will be administered by the Committee who may amend its rules subject to the approval of the Inland Revenue.

No amendment shall operate to affect adversely any rights already acquired by a participant unless the consent is obtained of participants who, if they exercised their options in full, would become entitled in aggregate to not less than three quarters of the shares which would be allotted on full exercise of all outstanding options.

The Committee may not make amendments to the rules of the Executive Scheme to the advantage of participants without the prior approval of the Company in general meeting, save for minor amendments to benefit the administration of the Executive Scheme, to take account of changes in legislation or to obtain or to maintain favourable taxation, exchange control or regulatory treatment for participants or for the Company or its subsidiaries.

(x) Duration of scheme

No options may be granted later than 10 years after adoption of the Executive Scheme.

However, options will become exercisable immediately (notwithstanding the non-fulfilment of any performance condition) on the death of a participant or on his ceasing to be an eligible employee by reason of ill health, redundancy or retirement or by reason of a transfer out of the Company's group either of the company which employs

him or the business in which he is employed. The Committee also has a discretion to permit exercise were the participant ceases to be an eligible employee for any other reason.

Options will also become exercisable (notwithstanding the non-fulfilment of any performance condition) in the event of a takeover, amalgamation, reconstruction or winding-up of the Company. Alternatively, on a takeover options may, with the agreement of an acquiring company, be exchanged for options over shares in the acquiring company.

#### **(b) Dividend, transfer and other rights**

Shares issued pursuant to the Executive Scheme will rank *pari passu* in all respects with the ordinary shares already then in issue save as regards any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the option.

Options are not transferable.

##### **(i) Administration and amendment**

The Executive Scheme will be administered by the Committee who may amend its rules subject to the approval of the Inland Revenue.

No amendment shall operate to affect adversely any rights already acquired by a participant unless the consent is obtained of participants who, if they exercised their options in full, would become entitled in aggregate to not less than three quarters of the shares which would be allotted on full exercise of all outstanding options.

The Committee may not make amendments to the rules of the Executive Scheme to the advantage of participants without the prior approval of the Company in general meeting, save for minor amendments to benefit the administration of the Executive Scheme, to take account of changes in legislation or to obtain or to maintain favourable taxation, exchange control or regulatory treatment for participants or for the Company or its subsidiaries.

#### **(c) Duration of scheme**

No options may be granted later than ten years after adoption of the Executive Scheme.

### **9. Material contracts**

The following contracts, not being entered into in the ordinary course of business have either (i) been entered into by the Company or BAL since their respective date of its incorporation and are or may be material, or (ii) contain a provision under which the Company or BAL has an obligation or entitlement which is material to the Group as at the date of this document:

- (a) On 25 February 2000, BAL and the Landlord entered into an agreement for a lease of the Lightwell. The agreement is conditional on the granting of consent by the Landlord's mortgagee. There is a long-stop date for completion of the Lease of six months from the date of such agreement. If the condition has not been met by such date either party may withdraw. The material terms of the Lease have been agreed as follows:

- (i) Term: The term is for a period of 15 years from the date of completion. The Lease is within the security of tenure provisions of the Landlord and Tenant Act 1954.
- (ii) Rent: The rent is payable at £28.00 per square foot. The area of the Property has been agreed at 18,721 square feet totalling in an annual rent of £533,540.50 per annum exclusive of VAT. The Landlord has elected to waive exemption for VAT and as such VAT will be payable.

For the first four quarters after completion of the Lease the rent payable will be reduced by the sum of £44,462.50 for each quarter.

- (iii) Rent review: The Lease provides for the rent to be reviewed every 5 years on the anniversary of the date of completion of the Lease. The review is upwards only and is subject to the annual commercial assumptions and disregards.

- (iv) Repair: BAL is to put keep and hand back the whole of the premises in good and substantial repair and condition including all fixtures and fittings and as often as shall be necessary to achieve this to rebuild, reinstate or replace the premises. Damage by any insured risk is excepted and in such case the Landlord has covenanted to rebuild and reinstate the premises (as to which please see below). It should be noted that should the premise be damaged or destroyed by an insured risk (for example should cover to terrorism no longer be available in the market) it will be BAL's obligation to rebuild and reinstate the premises.
  - (v) User: The permitted use is as offices.
  - (vi) Alienation: BAL is entitled to assign the whole of the premises with the consent of the Landlord and BAL must be prepared to enter into an authorised guarantee agreement if required by the Landlord. Assignment to another member of the Group is not permitted.
- (b) By an agreement dated 3 March 2000 between BAL and Lyric Trust, a trust connected to the Landlord, BAL has granted Lyric Trust an option to subscribe for such number of Ordinary Shares which represents 1.5 per cent of the number of Ordinary Shares in issue on Admission. The exercise price payable by Lyric Trust is in aggregate £816,530. The option may be exercisable at any time in the five year period commencing on 15 April 2000, provided that the option is not capable of exercise until completion of the Lease.
- (c) Under the Placing Agreement Schroders have agreed:
1. as agent of the Company to use reasonable endeavours to procure subscribers for up to 16,000,000 new Ordinary Shares; and
  2. on behalf of the Company to submit to the London Stock Exchange an application for Admission and to act as the Company's nominated adviser and nominated broker in respect of such application.

The obligations of the parties under the Placing Agreement are conditional upon certain conditions, including Admission having been fulfilled (or waived by Schroders) by 8.30 am on 7 April 2000, or such later date as may be agreed by Schroders and the Company.

The Placing Agreement contains certain representations and warranties by the Company and the Directors, and Richard Davidson as to the accuracy of the information contained in this document and other matters relating to the Company.

Under the Placing Agreement, and conditional upon Admission, the Company shall pay to Schroders for its services a commission of 5 per cent. of the aggregate value at the Placing Price of the new Ordinary Shares which are to be allotted and issued by the Company pursuant to the Placing (the "Commission"). The Commission is to be satisfied by payment in cash of an amount equal to 70 per cent. of the Commission, the issue of shares, credited as fully paid, by the Company having an aggregate value equal to 15 per cent. of the Commission and the issue of Schroders Warrants (as defined in the Placing Agreement) by the Company having an aggregate value equal to 15 per cent. of the Commission.

The Company has indemnified Schroders against all losses, costs, charges and expenses which Schroders may suffer or incur as a result of, occasionally by or attributable to the carrying out of its duties under the Placing Agreement.

- (d) The lock-in agreement referred to in paragraph 6.4 of Part I of this document
- (e) Under a nominated adviser and nominated broker agreement dated 23 March 2000 between the Company and Schroders, the Company has appointed Schroders to act as nominated adviser and nominated broker to the Company for the purposes of the AIM Rules. The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, all regulatory enquiries, actions or judgements in any jurisdiction. The agreement may be terminated at any time by Schroders on written notice or by Brainspark on three months' notice in writing.
- (f) By an agreement dated 1 March 2000 the Company acquired the entire share capital of BAL as part of its pre-flotation reorganisation under the terms of the agreement the Company issued 1,000 shares of 10p each for each share in BAL.

## 10. Litigation

Neither member of the Group is engaged in, nor has pending or threatened either by it or against it, any legal or arbitration proceedings which have had or are having or may have a significant effect on the financial position of the Group.

## 11. Working capital

The Company is of the opinion that having made due and careful enquiry and having regard to the net proceeds receivable under the Placing, the working capital available to the Group will, from Admission, be sufficient for its present requirements, that is for at least 12 months from the date of publication of this document.

## 12. Taxation

### *UK taxation*

The information on UK taxation set out below is based on current legislation and is for general guidance only. If the shareholder is in any doubt as to their tax position, they should consult their own professional adviser without delay.

### *Capital gains tax*

No liability to United Kingdom taxation on capital gains will arise solely by reason of a shareholder applying for new Ordinary Shares.

On a subsequent disposal liability to tax on a capital gain may arise, depending on a shareholder's personal circumstances. For such shareholders who are individuals, taper relief, and for shareholders within the charge to corporation tax, indexation allowance, may reduce any chargeable gain but not create or increase any allowable loss.

### *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax ("SDRT") will be payable in relation to the Placing.

The transfer of new Ordinary Shares (whether nil paid or fully paid) for money or money's worth on or before the latest time for registration of renunciation will not be liable to stamp duty but will generally be liable to SDRT at the rate of 0.5 per cent. of the consideration paid. Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the liability of SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the new Ordinary Shares is liable to pay the SDRT and must account to the Inland Revenue at the rate of 50 pence for every £100 (or part thereof) of the consideration paid.

The transfer on sale of new Ordinary Shares will be subject to *ad valorem* stamp duty at the rate of 0.5 per cent. (rounded to £5.00 or multiples thereof) of the actual consideration paid. In the absence of *ad valorem* stamp duty being paid (for example, because the sale is not effected by the completion of a legal transfer) a liability of SDRT will arise at the rate of 0.5 per cent. of the consideration paid.

### *Income Tax*

Under UK taxation legislation, no tax will be withheld at source from dividend payments made by the Company.

A holder of Ordinary Shares who is an individual resident tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received. The amount's of this tax credit is currently set at 1/8th of the amount of the dividend. Such individual shareholder liability to UK income tax is calculated on the aggregate of the dividend and the tax credit which will be regarded as the top slice of the individual's income. The tax credit is therefore set at 10 per cent. of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such shareholder's liability (if any) to income tax on the dividend. A shareholder liable to income tax at the higher rate (currently 40 per cent.) will be liable to pay additional income tax at a rate equivalent to the difference between the lower rate and the higher rate of income tax. From 6 April 1999 the lower rate of income tax on dividend income has been reduced to 10 per cent. This means that, as under the previous regime, the tax credit discharges the income tax liability of an individual shareholder who is not liable to income tax at a rate greater than the basic rate. The higher the rate of income tax on dividends has been



reduced to 32.5 per cent. from 6 April 1999 so that a shareholder who is a higher rate taxpayer has further income tax to pay at a rate of 22.5 per cent. of the dividend and related tax credit. This results in no greater income tax charge than prior to 6 April 1999. If the tax credit exceeds the shareholder's overall liability to income tax, he will be unable to claim payment of the excess in cash from the Inland Revenue.

A holder of Ordinary Shares that is a company resident (for taxation purposes) in the UK and receives a dividend paid by the Company will not be subject to tax in respect of the dividend.

Subject to certain exemptions for Commonwealth citizens, residents of the Isle of Man or the Channel Islands, nationals of any state which is party to the European Economic Area agreement and certain others, the right or a holder of Ordinary Shares who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of any relevant double tax convention concluded with the UK. The reduction in the amount of the tax credit referred to above will or will almost eliminate double tax treaty payments from 6 April 1999. Shareholders who are not resident in the UK should consult their own tax advisers concerning their liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. If any shareholder is in any doubt as to his tax position or is subject to tax in a jurisdiction other than the UK, he should consult his own professional adviser without delay.

### 13. General

- (a) PricewaterhouseCoopers have given and have not withdrawn their written consent to the inclusion in this prospectus of their Accountants' Reports in Parts II and III and the references thereto and to their name in the form and context in which they are included and accept responsibility for their Accountants' Reports in Parts II and III of this document in accordance with paragraphs 45(1)(b)(iii) and 45(8)(b) of Part VII of Schedule I of the Public Offers of Securities Regulations 1995.
- (b) The expenses of, and incidental to, the Placing which are payable in cash (including commissions, registration and listing fees, printing, advertising and distribution costs, legal and accounting fees and expenses) are estimated to amount to approximately £1.6 million (exclusive of VAT) and are payable by the Company.
- (c) The gross proceeds of the Placing are expected to be £20.0 million and the net proceeds after deduction of expenses (excluding VAT) are expected to be £18.4 million.
- (d) The minimum amount which in the opinion of the Directors must be raised by the Placing in order to provide the sums required to be provided pursuant to paragraph 21 of Schedule I of the POS Regulations is as follows:
 

The purchase price of property	NIL
Cash commissions, fees and expenses (excluding VAT)	£1.6 million
Funding of employee benefit trust (net of warrant exercise proceeds)	£4.5 million
Repayment of borrowings	NIL
Employers National Insurance on exercise of warrants	£1.1 million
Working capital	£13.9 million
- (e) Save as disclosed in Part I of this document there has been no significant change in the trading or financial position of the Company since 29 February 2000, being the date to which the financial information contained in the Accountants' Report on the Company set out in Part III was drawn up.
- (f) Save as disclosed in Part I of this document there has been no significant change in the trading or financial position of BAL since 31 December 1999, being the date to which the last audited accounts of BAL were prepared.

- (g) The financial information contained in Parts II and III of this prospectus does not constitute statutory accounts within the meaning of Section 240 of the Act. A copy of the audited accounts of BAL for the period ended 31 December 1999 will be delivered to the Registrar of Companies in England and Wales. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Act.
- (h) The Group's business operations suffered no disruption as a result of the millennium date change. The Directors believe that all reasonable steps have been taken to ensure that no significant disruption will occur during the remainder of the current year from potential millennium related problems. No significant costs have arisen or are expected to arise in dealing with potential problems related to the millennium date change.
- (i) The Ordinary Shares are in registered form and no temporary documents of title will be issued. The Articles permit the holding and transfer of Ordinary Shares under CREST. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be admitted to and enabled for settlement in CREST on the date of Admission.
- (j) The Placing Price of 125p represents a premium of 124p over the nominal value of an Ordinary Share.
- (k) The issue of the new Ordinary Shares is being conducted by way of a Placing. Schroders is arranging for the Placing Shares to be placed conditional, *inter alia*, upon Admission with institutional and other investors. The arrangements during the period prior to Admission for payment for the Placing Shares and for the return of any moneys to potential placees where their applications are not accepted and the timetable for return of such moneys are set out in the placing letters sent to such investors which accompany this document. No offer to the public (as defined in the POS Regulations) of the Placing Shares has been made or will, prior to Admission, be made.
- (l) Temporary documents of title will not be issued and pending despatch of share certificates transfers will be certified against the share register. It is expected that share certificates will be despatched at the risk of the persons entitled thereto by 14 April 2000.
- (m) Copies of this document are available free of charge until at least 14 days after the date of Admission from Schroders, 120 Cheapside, London EC2V 6DS or Gouldens, 10 Old Bailey, London EC4M 7NG.

#### **14. Documents available for inspection**

Copies of the following documents will be available for inspection at the offices of Gouldens, 10 Old Bailey, London EC4M 7NG during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until at least 14 days after the date of Admission:

- (a) the memorandum of association of the Company and the Articles of Association;
- (b) the Accountants' Reports by PricewaterhouseCoopers set out in Parts II and III;
- (c) the rules of the share option scheme referred to in paragraph 8 above;
- (d) the material contracts referred to in paragraph 9 above;
- (e) the Directors' service contracts and letters of engagement referred to in paragraph 6 above;
- (f) the written consent referred to in paragraph 13 above;
- (g) this document.

Dated 23 March 2000