

Company Registration No: 3926192

**BRAINSPARK PLC**

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**Annual Report and Financial statements for  
the year ended 31 December 2005**

**Brainspark Plc**

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## Company information

### Directors

Francesco Gardin, Chairman  
Alfredo M. Villa, Non Executive Officer  
Dennis B. Bailey, Non-Executive Director  
Don R. Caldwell, Non-Executive Director  
David Meacher, Non-Executive Director  
Edward Burman, Non-Executive Director

### Secretary

Dennis B. Bailey

### Company number

3926192

### Registered office

The Lightwell  
12 - 16 Laystall Street  
Clerkenwell  
London  
EC1R 4PF

### Auditors

Mazars LLP  
19 Goldington Road  
Bedford  
MK40 3JY

### Solicitors

Gordons  
22 Great James Street  
London  
WC1N 3ES

### Nominated Adviser

Beaumont Cornish Limited  
10-12 Copthall Avenue  
London  
EC2R 7DE

### Broker

Hoodless Brennan & Partners Plc  
Docklands  
40 Marsh Wall  
London  
E14 9TP

### Registrar

Capita IRG Plc  
The Warrant House  
High Street  
Altrincham  
Cheshire  
WA14 1PZ

## Chairman's statement

I am pleased to present the Company report for the year ended 31 December 2005.

The results show a loss of £0.9M compared to a loss of £1.0M for the financial year to 31 December 2004. The slight improvement is due to some extent to the reduction in running costs of the Company.

These results are declared after amortisation of goodwill, our share of the associates losses and amounts written off investments of £794,000 compared with £1,223,000 in the previous year. The remaining goodwill of £651,000 carried in the balance sheet will be completely written-off in the current financial year. These amounts have no impact on group's cash position.

The Year 2005 was a very important milestone for Brainspark, we hope that it represents a turnaround for the group and confirms the strategy implemented so far by the Brainspark Board is heading in the right direction.

The cost cutting measures begun in 2002, having further reduced the net operating expenses to £22,000 per month this year, net of recovery of rent and charges made to the portfolio companies.

## Company background

Schroders arranged the floatation of Brainspark to AIM in 2000 with a market capitalisation of £153M. The Company was established in November 1999 to become a leading UK Internet incubator, raising £6M, made 8 acquisitions, subsequently raising another £6M in March 2000 and went public on AIM the following month raising £18M; an additional £10M was raised in August of the same year. By the end of 2000 the group had investments in 18 companies. At this stage running costs were above £200,000 per month. In addition a 15 year office lease was entered into representing a long term financial commitment of £12.5M over the term of the lease.

In November 1999 Robert Fleming launched AISoftw@re, an Italian Software company, onto Nasdaq Europe and then to the Milan Stock Exchange in August 2000. AISoftw@re SpA successfully completed the friendly takeover of Brainspark Plc in January 2002.

At that time 8 companies of the original 18 invested in had survived. At the time of the takeover £5.6M was left in bank deposits. However, there were still 14 years remaining on the property lease, leaving at the time little hope for the future, with monthly running costs of approximately £140,000.

A new portfolio of companies had been acquired for approximately £5M, in 2002, which included ACS and Geosim. By the end of 2005 net operating expenses had been reduced to £22,000 per month. A new office lease agreement had been re-negotiated which expired in March 2006.

Three of the original portfolio companies had been sold crystallising more than £500,000 in cash and an option for £300,000 been entered into to dispose of ACS at its original book value. Moreover, by December 2005 £850,000 was raised by way of convertible loans of which £637,000 had been converted into equity, the remaining unconverted balance is held by me. I would like to convert this but it is currently not practical as conversion would take my shareholding and that of another family member above 30%; other than this Brainspark has no other debt or financial commitment.

## **Summary Financial Results**

The Group's cash reserves at 31 December 2005 stood at £446,000 compared with £28,000 at December 2004. The Group's net asset value (NAV) was £2.5M at December 2005, compared with £2.8M at December 2004.

## **Market Environment**

The market environment in the IT sector remains difficult and although our existing portfolio of companies show signs of improvement and some have entered into their profitability phase. The ability to maximise our return on sale from our investments might require Brainspark to provide further support to some of the current portfolio companies over the short to medium term. On the other hand, emerging markets may give rise to new opportunities in niche IT technologies although the Company will be more selective than in the past.

Brainspark will also be looking at other technology sectors, where interesting opportunities may arise and provide strong growth prospects.

## **Operational Changes**

The Board during 2006 will continue to focus on reducing net operating expenses to below £20,000 per month.

## **Board Changes**

Mr. Villa has been appointed non-executive Director of Brainspark on 22nd July 2005, while Mr. Agosta resigned as director on 2<sup>nd</sup> December 2005.

## **Investment Committee Changes**

No changes have been made to the Investment Committee during the year. The Committee is currently represented by the by Prof. Francesco Gardin, Chairman of the Company, Mr. David Meacher, an Independent Director, and an external advisor Prof. John A. Campbell.

## **Business Process**

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

This is a consequence of difficult market conditions and the change in strategy adopted by the company.

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

## **Brainspark's Strengths**

Brainspark current strengths include the positive cash balance, significant unutilised tax losses, management with a track record and capability to identify attractive investment opportunities focused in the technology sector, an established network of contacts and relationships to source new potential targets for investment. Moreover, the company has achieved a major reduction in operating expenses since inception. Brainspark has two Directors based in Milan which may result in the procurement of companies for the AIM market. A Director located in the USA, two in the UK and one in China.

As a result of the later the company has begun to investigate the viability of an IP2IPO model, like those in China. Our Board Member, based in Beijing is highly instrumental in these types of projects.

In China, management believes there is extensive scope to secure exciting projects on very attractive valuation and a viable enterprise can be built reasonably quickly.

The investment portfolio is in better shape now than it has been for some years. Easyart made an acquisition at the end of 2005 which has encouraged the Directors at a time when the market is not easy.

TraderServe has launched its new generation algorithmic trading platform capable of beating VWAP (the standard equity market benchmark). The platform has achieved excellent trading results during H1 2006.

The diamond in the Brainspark portfolio is Geosim. The Philadelphia reproduction on the cover of these accounts is taken from the library of Geosim and shows the photorealism achieved by their 3D city modeling technology (for more details please visit their web-site [www.geosim.co.il](http://www.geosim.co.il)). It has moved to the next step in its evolution, since inception in 2000. The company develops high-tech 3D city modeling technology and applies it to create high resolution photorealistic 3D models of cities. Applications include urban planning and development, tourism, estate agency, law enforcement, advertising, entertainment and the security and rescue services. During 2005 modeling of the first American university took place at UPENN in Philadelphia and new US investors have entered into an investment agreement.

In April 2006, Crash LLC completed their \$720,000 (£395,000) investment commitment in Geosim (\$400,000 or £ 218,000 by 31<sup>st</sup> December 2005) and signed in June 2006 a new agreement for assisting the company to raise a further \$2,000,000 (£1,097,000), the first \$720,000 (£395,000 ) of which has been raised by three US investors at a pre-money valuation for Geosim of \$10,000,000 (£5,482,000). On this basis the current Geosim investment is worth the equivalent of 0.73p for each Brainspark share ignoring all other company assets; if other company assets are included the valuation increases to 1.22p a share.

Fortune Cookie, a high level web design company, continues to make encouraging progress and made a profit for the second consecutive year on revenues above £1M.

ACS based in Italy, continue to operate in their core businesses of software development for earth observation satellites, mission planning and management. In August 2005 Brainspark granted a call option to AISoftware SpA over the entire issued share capital of its wholly owned subsidiary, Infusion 2002 Limited, which has a holding of 16.2% in ACS. An initial non-refundable amount of £300,000 was paid by way of a set-off agreement and a further payment of £1,130,000 is payable on exercise of the Option, which expires on 31<sup>st</sup> July 2006.

Metapack is planning to launch their new ASP platform in the second half of 2006, which should help the company to reach a larger number of customers.

Brainspark has reached a stage where, because of the above results and current assets could prove attractive to third parties. Including companies who might view Brainspark as the ideal vehicle for an AIM reverse, as in the case of Geosim, if and when their international expansion warrants such.

## **Tax Losses**

The Group has unutilised management expenses available for carry forward at 31 December 2005 amounting to £11M (2004:£11M), corresponding to a potential future cash saving of £3.3M in tax and capital losses of £4.67M, corresponding to a potential future cash saving of £1.4M. All such losses rest in Brainspark Associates Limited and are available for future utilisation.

The likelihood is that Brainspark will need to acquire a profitable business, in order to utilise the management expenses, which will ultimately enable Brainspark to distribute dividends to its shareholders.

## **2006 Highlights**

On 11 January 2006 Dennis Bailey was appointed a Director of Brainspark with immediate effect. Mr. Bailey became a member of the London Stock Exchange in 1968, and was a Partner in Hichens Harrison & Co, one of the oldest firms of stockbrokers which was established in 1803.

On 24<sup>th</sup> March 2006 Brainspark's lease on the Lightwell premises expired; releasing the Company from an annual commitment of approximately £200,000.

On 29<sup>th</sup> March 2006 the Company made a \$100,000 (£55,000) investment in Polarizonics a Delaware company holding a technology with the potential for over 100GB discs. This innovation is of particular importance for satisfying the future demand for increased disc capacity of HD video content of movies and video games. This has been the first investment for three years and is an indication of a new beginning in the life of Brainspark.

On 17<sup>th</sup> May 2006 Brainspark invested Euro 49,400 (£34,500) in Mediapolis SpA, an Italian real estate development company which owns the land and the planning permission for a major development project in Piemonte, between Turin and Milan. The development includes a major theme park, a specialised commercial centre and two hotels.

On 7<sup>th</sup> June 2006 Brainspark agreed to dispose of its entire holding in Kerb Limited an internet services for a cash consideration of £205,000. The holding is being re-purchased by the company; as a consequence there are certain protocols which need to be followed, however we anticipate this transaction will be completed on or towards 6 July 2006.

## **Investments Summary**

Brainspark has holdings in 6 companies, 4 in the UK, 1 in Italy and 1 in Israel. Its holdings range from approximately 5% to nearly 55% in these companies. The portfolio covers a wide range of business sectors, including Web Services, application service providers and advanced IT solutions. During the first half of 2006 two new holdings in US and Italy were acquired with an equity position of less than 5% each.

At 31 December 2005, Brainspark's mid-market price per share of 1.025p which valued the Company at £3.39million.



Prof. Francesco Gardin  
**Chairman**  
22 June 2006

## Directors

Francesco Gardin (I)

### **Chairman of Board and Acting Chief Executive**

Was appointed on 5 February 2002, resigned on 28 October 2002 and re-appointed 14 November 2002. Holds a degree in Theoretical Physics at Padova University in 1979. Since 1984, he has been Associate Professor at Udine, Milano and Siena University lecturing in Artificial Intelligence, Man-Machine Interaction and related topics. His academic writing includes more than 50 individual and joint publications. In 1983, Francesco Gardin founded AISoftw@re S.p.A. Francesco Gardin is now Chairman of AISoftw@re S.p.A. which was listed at the Milan Stock Exchange in 2000. Age 51.

Alfredo Villa

### **Non-Executive Officer**

Was appointed 22 July 2005, His career started at Banca della Svizzera Italiana as currency option dealer, and then joined Soginvest Banca (CIAL Group), In 1991 he co-founded in Lugano, Switzerland, Givigest Fiduciaria SA, a firm actively involved in investment banking. In 1994 he co-founded SCF SA, a financial consulting firm offering asset management services. These two companies were sold in 2001. He is a 'Chartered Technical Analyst' (CTA) qualified by US Market Technicians Association in New York, and a 'Stock, Option and Futures Broker' certified by the National Association of Securities Dealers (NASD), as well as an authorised Financial & Commercial Fiduciary in the Swiss Canton of Ticino. His current activities are based mainly in Italy where he is a board member and partner of Gabrielli & Associati in Milan a financial consulting company who just sold a private fund with 100M euro under management and a board member and a shareholder of Mediapolis S.p.A a real estate company established to develop the largest amusement park in Italy he is also an independent consultant and private investor in several venture capital companies. He is also a Director of a Nasdaq listed Company and also Chairman of "Fondazione Settembre Onlus" and VP of "Homes for Hope" Charities. Age 45.

Don Caldwell (A, R)

### **Non-Executive Director**

Was appointed 28 February 2001 and is Chairman and Chief Executive Officer of Cross Atlantic Capital Partners which manages two funds which are significant Brainspark shareholders. He is a former President and Chief Operating Officer of Safeguard Scientifics Inc and he is also currently a non-executive Director of several leading companies in the US and Chairman of Crucible Corporation, a seed fund based in Ireland. Age 60.

David Meacher (A, I, R)

### **Non-Executive Director**

Was appointed 5 February 2002. He has over seventeen years of experience in international investment banking and strategic consultancy. He is a partner of City Capital Corporation Limited, a UK based boutique investment bank that focuses on corporate finance and capital markets for mid-sized UK and continental European corporates. Age 42.

Edward Burman (A)

### **Non-Executive Director**

Was appointed on 7 November 2002. He is Director of Ambrosetti Stern Stewart Italy and is responsible for the E-Services area which provides consulting programs on the use of Internet for e-commerce and e-business. He is Professor of the new e-business course in the Economics division at the University of Bologna. Between 1994 and 2000 he lectured at the Canterbury Business School of the University of Kent. Currently he is a lecturer at Henley Management College (UK). Age 58.

Dennis Bailey

### **Non-Executive Director and Company Secretary**

Was appointed on 11 January 2006. He became a member of the London Stock Exchange in 1968, a Partner in Hichens Harrison & Co, one of the oldest firms of stockbrokers having been established in 1803, and later a joint owner of the business, which was sold to Sanlam of South Africa in May 2001. In his 35 years with Hichens, Harrison & Co, Mr. Bailey was engaged in discretionary investment management and later Head of Corporate Finance involved in new issues and takeovers. Mr. Bailey resigned as Managing Director of Hichens, Harrison & Co plc in May 2004. He is now Chairman of Financial Fun Limited, a company engaged in investment management support and company research for takeovers.

### **Key:**

- A **Member of the Audit Committee during the year**
- I **Member of the Investment Committee during the year**
- R **Member of the Remuneration Committee during the year**

## Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2005.

### Principal Activity

The principal activity of the Group is the investment in technology start up businesses and advanced technology business.

### Review of business

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

### Directors

The present members of the Board of Directors together with brief biographies are shown on page 5.

No Director had a material interest in any contract of significance to the Company or any of its subsidiaries during the period other than F. Gardin's interest in the grant of a call option to AiSoftw@re SpA over the company's shares in Infusion 2002 Limited and in the issue of the convertible loan notes. Full details of these transactions are provided in notes to the financial statements. Nor did any Directors of the Company have any beneficial interests in the shares of its subsidiary companies, associates and investments other than two of the Cross Atlantic Funds which hold a portion of MetaPack. Directors' interests in the shares of the Company are as shown below.

### Directors' interests

The interests of the directors' who served at the end of the year in the share capital of the Company at 31 December 2005 and 1 January 2005, or if later, the date of appointment were as follows:

|                                    | Beneficial holdings                               |                                                             |       |                                                          |
|------------------------------------|---------------------------------------------------|-------------------------------------------------------------|-------|----------------------------------------------------------|
|                                    | Number of shares                                  |                                                             |       |                                                          |
|                                    | 31 December<br>2005<br>(Deferred 0.01p<br>shares) | 31 December<br>2005<br>(0.01p shares<br>ordinary<br>shares) | %     | 1 January<br>2005<br>(formerly 1p<br>ordinary<br>shares) |
| <b>Executive Directors</b>         |                                                   |                                                             |       |                                                          |
| F. Gardin                          | 3,158,424,522                                     | 67,903,278                                                  | 20.53 | 31,903,278                                               |
| <b>Non-Executive Directors</b>     |                                                   |                                                             |       |                                                          |
| D. Meacher                         | -                                                 | -                                                           | -     | -                                                        |
| E. Burman                          | 67,499,982                                        | 681,818                                                     | 0.35  | 681,818                                                  |
| D. R. Caldwell                     | -                                                 | -                                                           | -     | -                                                        |
| A. M. Villa (appointed 22/07/2005) | -                                                 | 51,389,130                                                  | 15.54 | -                                                        |

D. B. Bailey was appointed as a director on 11 January 2006. A. Agosta resigned as a director on 2 December 2005.

Following an Extraordinary General Meeting held on 3 March 2005, resolutions were passed to effect the sub-division of each of the existing issued ordinary shares of 1p into one new ordinary share of 0.01p ("New Ordinary Shares") and 99 new deferred shares of 0.01p ("Deferred Shares"). The Deferred shares carry no effective rights.

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

The market price of the ordinary shares at 31 December 2005 was 1.025p and the highest and lowest mid price during the year were 2.3p and 0.2p respectively.

There have been no changes in the Directors' interests between the year end and 27 June 2006.

## **Dividends**

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

## **Substantial shareholder interests**

As at 31 May 2006, substantial interests of 3 per cent or more in the ordinary shares of the Company notified to the Company in accordance with Sections 198-208 of the Companies Act 1985, were as follows:

|                                | <b>Number of shares</b> | <b>% of shares</b> |
|--------------------------------|-------------------------|--------------------|
| F. Gardin                      | 67,903,278              | 20.53              |
| A. M. Villa                    | 51,389,130              | 15.54              |
| Fogliani                       | 29,401,304              | 8.89               |
| Cross Atlantic Technology Fund | 33,916,050              | 10.26              |
| D. B. Bailey                   | 10,869,565              | 3.29               |

## **Corporate Governance**

Details of the Company's corporate governance policy and its compliance with the principles of the Combined Code are set out in pages 10 to 12.

## **Creditor payment policy**

The Group's policy is to settle all trade creditor balances in accordance with the terms of business agreed with the supplier. The Group's average creditor payment period at 31 December 2005 was 79 days (2004: 75 days).

## **Charitable and political contributions**

There were no charitable or political donations made during the year (2004 - nil).

## **Financial instruments**

Details of the group's treasury operations and financial instruments are contained in note 19 to the financial statements.

## **Auditors**

A resolution to reappoint Mazars LLP as auditors to the Company and to authorise the Director to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board.

Dennis B. Bailey  
**Company Secretary**  
22 June 2006

## Remuneration Committee's report

The Remuneration Committee of the Board (the Committee) is comprised of two non-executive Directors of the Company, D. R. Caldwell and D. Meacher and the Chief Executive Officer. At present the Chairman is the acting as the Chief Executive Officer. The Committee is responsible for setting the remuneration of the executive Directors.

### Remuneration policy

The Committee reviews remuneration levels annually and attempts to ensure that they are set at a level which is in line with packages available in comparable companies in the industry, are capable of attracting, retaining and motivating Directors of appropriate calibre, are consistent with the performance of the Company and at the same time are aligned with the best interests of the shareholders.

The Committee receives advice from external remuneration advisers where appropriate.

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

### Service contracts

None of the executive directors have formal service contracts; their remuneration is fixed by the Remuneration Committee.

### Remuneration

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

|                                    | Board fees<br>£'000 | Salary<br>£'000 | Compensation<br>payment<br>£'000 | 2005<br>Total<br>£'000 | 2004<br>Total<br>£'000 |
|------------------------------------|---------------------|-----------------|----------------------------------|------------------------|------------------------|
| <b>Executive Directors</b>         |                     |                 |                                  |                        |                        |
| F. Gardin                          | -                   | -               | -                                | -                      | 5                      |
| A. Agosta (Resigned 2/12/2005)     | -                   | 23              | 30                               | 53                     | 85                     |
| <b>Non-executive Directors</b>     |                     |                 |                                  |                        |                        |
| D R Caldwell (Cross Atlantic)      | -                   | -               | -                                | -                      | -                      |
| D. Meacher                         | 10                  | -               | -                                | 10                     | -                      |
| E. Burman                          | 2                   | -               | -                                | 2                      | 5                      |
| A. M. Villa (Appointed 22/07/2005) | -                   | -               | -                                | -                      | -                      |
| <b>Total</b>                       | <b>12</b>           | <b>23</b>       | <b>30</b>                        | <b>65</b>              | <b>95</b>              |

Mr. Meacher and Mr. Burman received £10,000 and £1,500 respectively by way of special fees payable for their support into transaction assistance provided to the Group.

F. Gardin received £700 (2004: £700) for being a board member of ACS, a company in which the group has an investment stake.

Mr. A. Agosta received £30,000 compensation for loss of office.

None of the Directors had any pension entitlement.

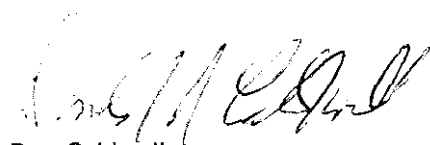
## Directors' interests in share options and warrants

At 31 December 2005, the following Directors had outstanding share options and warrants in the Company; these remain exercisable at any time on or before 31 July 2006, as follows:

### Interests in warrants

|                                 |                 | Number of warrants |                         |                  |
|---------------------------------|-----------------|--------------------|-------------------------|------------------|
|                                 | Exercise Price  | 1 January 2005     | Granted during the year | 31 December 2005 |
| <b>Non-Executive Directors</b>  |                 |                    |                         |                  |
| D. Meacher                      | 1.32p per share | 2,904,545          | -                       | 2,904,545        |
| D. R. Caldwell (Cross Atlantic) | 1.1p per share  | 1,745,455          | -                       | 1,745,455        |

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



Don Caldwell  
**Chairman of the Remuneration Committee**  
22 June 2006

## Corporate Governance

### Combined Code

The Board of Directors is accountable to the Company's shareholders for ensuring good corporate governance and the Directors support the principles of the Combined Code.

Since scaling down of the Company's operations the Directors believe it is impracticable to comply with the full provision of the Code. However, it is the Directors' intention that as the Company refocuses its operations appropriate Corporate Governance measures will be reintroduced in order to move towards full compliance with the Code.

### Board of Directors

During the year, the Board comprised two executive Directors until December 2005 and Four non-executive Directors after Mr. Villa joined the Board following the Annual General Meeting. Don Caldwell is the representative of Cross Atlantic Capital Partners, a major shareholder. The other Directors are independent.

The composition of the Board during the year is shown on page 5.

The Board is responsible for the overall management of the Group. The Board received regular reports from management on key issues such as investment strategy, financial performance and operational matters for which there is a prescribed timetable.

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

On appointment and as necessary thereafter Directors received technical information about their responsibilities and duties from the Company's legal adviser.

### Board Committees

During the year, the Board had delegated responsibilities to its committees which had fixed terms of reference. The main committees established were the Investment, Audit and Remuneration Committees.

### Investment Committee

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

### Audit Committee

The Audit Committee is responsible for dealing with accounting matters, ensuring the independence of the external auditors, financial reporting and internal controls and comprises three of the non-executive Directors and the Chief Executive Officer.

## Remuneration Committee

The Remuneration Committee is responsible for the approval of the remuneration for the executive Directors in accordance with the Group's remuneration policy framework.

The Committee is comprised of two non-executive Directors and the Chief Executive Officer. In framing its remuneration policy full consideration had been given to the provisions of Section 1B and Schedule A to the Combined Code.

## Nominations Committee

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

## Corporate Governance

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

The Board confirms that it will reassess its compliance with the Combined Code in the event of any significant transactions which would result in a substantial expansion of the Company.

## Relations with shareholders

The executive Directors meet with representatives of institutional investors and analysts to discuss their views and ensure that the corporate objectives and strategies of the Group are well understood. The Company's shareholders are sent annual reports and accounts and all shareholders are entitled to attend the Annual General Meeting and receive a Notice of the Meeting.

Members of the Board will be in attendance at the Annual General Meeting and will be available to meet shareholders informally after the meeting. The Company will advise shareholders attending the AGM of the number of proxy votes lodged for and against each resolution after each resolution has been dealt with by a show of hands.

## Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- a) select suitable accounting policies and then apply them consistently,
- b) make judgements and estimates that are reasonable and prudent,
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are also responsible for the maintenance and integrity of the website and acknowledge that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors believe there is no relevant audit information of which the auditors are unaware. Each Director has taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Internal control**

The Board recognises its responsibilities for ensuring the Group has effective internal controls in place throughout the year, as well as procedures necessary for reviewing the Group's system of internal control and assessing the nature and extent of the risks facing the Group.

### **Going concern**

The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis for preparing the financial statements.

## **Independent auditors' report to the members of Brainspark plc**

We have audited the financial statements of Brainspark Plc for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company and other members of the group is not disclosed.

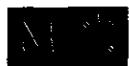
We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



MAZARS

## Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and the Group's affairs as at 31 December 2005, and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Mazars LLP*

### **Mazars LLP**

Chartered Accountants and Registered Auditors  
19 Goldington Road  
Bedford  
MK40 3JY  
29 June 2006

## Financial Statements

### Consolidated profit and loss account For the year ended 31 December 2005

|                                                                         | Notes | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------------------------------------|-------|---------------|---------------|
| <b>Turnover</b>                                                         | 2     | -             | -             |
| Net operating expenses – recurring                                      | 3     | (258)         | (395)         |
| Net operating income – exceptional                                      | 3     | 122           | -             |
| <b>Total net operating expenses/Group operating loss</b>                |       | (136)         | (395)         |
| Share of operating loss of associated undertakings                      | 4     | (675)         | (1,186)       |
| <b>Total operating loss: Group and share of associated undertakings</b> |       | (811)         | (1,581)       |
| Profit on disposal of associated undertakings                           | 14    | -             | 558           |
| <b>Loss on ordinary activities before interest</b>                      |       | (811)         | (1,023)       |
| Net interest payable                                                    | 7     | -             | (11)          |
| Amounts written off investments                                         | 15    | (119)         | (37)          |
| <b>Loss on ordinary activities before taxation</b>                      | 8     | (930)         | (1,071)       |
| <b>Tax on loss on ordinary activities</b>                               | 9     | -             | -             |
| <b>Loss on ordinary activities after taxation</b>                       |       | (930)         | (1,071)       |
| <b>Retained loss for the financial year</b>                             | 22    | (930)         | (1,071)       |
| <b>Loss per 0.01p ordinary share</b>                                    |       |               |               |
| Basic and diluted earnings per share                                    | 11    | (0.48p)       | (0.56p)       |

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

**Consolidated statement of total recognised gains and losses**  
**For the year ended 31 December 2005**

|                                                | <b>Notes</b> | <b>2005<br/>£'000</b> | <b>2004<br/>£'000</b> |
|------------------------------------------------|--------------|-----------------------|-----------------------|
| Loss for the financial year                    | 22           | (930)                 | (1,071)               |
| <hr/>                                          |              |                       |                       |
| Total recognised gains and losses for the year |              | (930)                 | (1,071)               |
| <hr/>                                          |              |                       |                       |

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

**Financial statements 2004-2005**

|                                                                                | Notes | Group<br>2005<br>£'000 | Group<br>2004<br>£'000 | Company<br>2005<br>£'000 | Company<br>2004<br>£'000 |
|--------------------------------------------------------------------------------|-------|------------------------|------------------------|--------------------------|--------------------------|
| <b>Fixed assets</b>                                                            |       |                        |                        |                          |                          |
| Tangible assets                                                                | 12    | 9                      | 44                     | -                        | -                        |
| Investments in subsidiary undertakings                                         | 13    | -                      | -                      | 1,180                    | 1,617                    |
| Investments in associated undertakings                                         | 14    | 1,023                  | 1,451                  | -                        | -                        |
| Other investments                                                              | 15    | 1,130                  | 1,549                  | -                        | -                        |
|                                                                                |       | 2,162                  | 3,044                  | 1,180                    | 1,617                    |
| <b>Current assets</b>                                                          |       |                        |                        |                          |                          |
| Debtors (amounts falling due within one year)                                  | 16    | 267                    | 352                    | 2,242                    | 1,127                    |
| Debtors (amounts falling due after more than one year)                         | 16    | 60                     | 110                    | -                        | -                        |
| Cash at bank and in hand                                                       | 17    | 446                    | 28                     | -                        | -                        |
|                                                                                |       | 773                    | 490                    | 2,242                    | 1,127                    |
| Creditors: amounts falling due within one year<br>(including convertible debt) | 18    | (461)                  | (645)                  | (245)                    | (364)                    |
| <b>Net current assets / (liabilities)</b>                                      |       | 312                    | (155)                  | 1,997                    | 763                      |
| <b>Total assets less current liabilities</b>                                   |       | 2,474                  | 2,889                  | 3,177                    | 2,380                    |
| <b>Provisions for liabilities and charges</b>                                  | 20    | -                      | (122)                  | -                        | -                        |
| <b>Net assets</b>                                                              |       | 2,474                  | 2,767                  | 3,177                    | 2,380                    |
| <b>Capital and reserves</b>                                                    |       |                        |                        |                          |                          |
| Called up share capital                                                        | 21    | 1,936                  | 1,923                  | 1,936                    | 1,923                    |
| Share premium account                                                          | 22    | 29,186                 | 28,562                 | 29,186                   | 28,562                   |
| Other reserves                                                                 | 22    | 6,813                  | 6,813                  | -                        | -                        |
| Profit and loss account (deficit)                                              | 22    | (35,461)               | (34,531)               | (27,945)                 | (28,105)                 |
| <b>Total equity shareholders' funds</b>                                        |       | 2,474                  | 2,767                  | 3,177                    | 2,380                    |

These financial statements were approved by the Board of Directors on 22 June 2006.

Signed on behalf of the Board.

  
Prof. F. Gardin  
Chairman

Reconciliation of movements in shareholders' funds  
For the year ended 31 December 2005

|                                                       | Notes | Group<br>2005<br>£'000 | Group<br>2004<br>£'000 | Company<br>2005<br>£'000 | Company<br>2004<br>£'000 |
|-------------------------------------------------------|-------|------------------------|------------------------|--------------------------|--------------------------|
| (Loss)/gain for the period                            | 22    | (930)                  | (1,071)                | 160                      | (1,981)                  |
| New share capital issued                              |       | 637                    | -                      | 637                      | -                        |
| <b>Net (decrease)/increase in shareholders' funds</b> |       | <b>(293)</b>           | <b>(1,071)</b>         | <b>797</b>               | <b>(1,981)</b>           |
| <b>Opening shareholders' funds</b>                    |       | <b>2,767</b>           | <b>3,838</b>           | <b>2,380</b>             | <b>4,361</b>             |
| <b>Closing shareholders' funds</b>                    |       | <b>2,474</b>           | <b>2,767</b>           | <b>3,177</b>             | <b>2,380</b>             |

**Consolidated cash flow statement**  
**For the year ended 31 December 2005**

|                                                                       | <b>Notes</b> | <b>2005<br/>£'000</b> | <b>2004<br/>£'000</b> |
|-----------------------------------------------------------------------|--------------|-----------------------|-----------------------|
| Net cash outflow from operating activities                            | 23           | (297)                 | (240)                 |
| <b>Returns on investments and servicing of finance</b>                |              |                       |                       |
| Interest paid on 5% convertible bond                                  |              | -                     | (2)                   |
| Interest paid on shareholder loan                                     |              | (11)                  | -                     |
| Net cash outflow from returns on investments and servicing of finance |              | (11)                  | (2)                   |
| <b>Acquisitions and disposals</b>                                     |              |                       |                       |
| Sale of investments in associated undertakings                        |              | 105                   | 360                   |
| Purchase of investments in associated undertaking                     |              | -                     | (70)                  |
| Loans to associated undertakings                                      |              | (56)                  | (110)                 |
| Net cash inflow from acquisitions and disposals                       |              | 49                    | 180                   |
| <b>Net cash outflow before financing</b>                              |              | <b>(259)</b>          | <b>(62)</b>           |
| <b>Financing</b>                                                      |              |                       |                       |
| Receipts from convertible loan issue                                  |              | 850                   | -                     |
| Repayment of 5% Convertible bond issue                                |              | -                     | (50)                  |
| Loan from major shareholders and others                               |              | -                     | 110                   |
| Repayment of loans to major shareholders and others                   |              | (173)                 | (38)                  |
| <b>Net cash inflow from financing</b>                                 | 24           | <b>677</b>            | <b>22</b>             |
| <b>Increase /(decrease) in net cash for the period</b>                | 24           | <b>418</b>            | <b>(40)</b>           |

## Notes to the financial statements

### 1 Basis of preparation

#### Principal accounting policies

The financial statements have been prepared under the historical cost convention modified to include certain investments at valuation, and in accordance with applicable accounting standards. A summary of the more important Group accounting policies is set out below.

#### Going Concern

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

#### Consolidation

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

The profits and losses of the subsidiary and associated undertakings are consolidated from the date control is achieved to the date control is relinquished.

#### Group Reorganisation

The Company applied the Companies Act merger relief provisions when it issued shares to acquire the entire share capital of Brainspark Associates Limited in previous years. Accordingly no share premium was recorded relating to the Company's issue of these shares.

#### Goodwill

On the acquisition of a business, fair values are ascribed to the net assets acquired and where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as goodwill and capitalised as an asset within the balance sheet. Goodwill, being the excess of the fair value of consideration paid for associated undertakings over the fair value of their net assets at the date of acquisition, is capitalised and included together with the Group's share of the net assets in the investments in associated undertakings. Goodwill arising is amortised over its useful economic life, which is estimated to be between three and five years.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost and depreciated on a straight line basis over their estimated useful lives. The rates of depreciation charged are as follows:

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

## Notes to the financial statements

### Foreign Currencies

Assets, liabilities, revenues and costs expressed in foreign currencies are translated into sterling at rates of exchange ruling on the date on which transactions occur except for monetary assets and liabilities, which are translated at the rate ruling at the balance sheet date.

Financial statements of overseas associates are translated at the rate ruling at the balance sheet date. Exchange differences are dealt with through reserves.

### Associated undertakings

In the consolidated balance sheet the investments in associated undertakings are carried at share of net assets plus unamortised goodwill. Investments in associated undertakings are carried in the subsidiary's balance sheet at cost or valuation. Cost is based on the fair value of the consideration paid for the investment, including acquisition costs. Where a different value is demonstrated by a significant third party event, the investment is carried at a correspondingly revalued amount and in the case of a permanent impairment in the carrying value of the asset a write-down provision is made in the profit and loss account.

### Investments

Investments in subsidiary undertakings are carried at underlying net asset value which includes assets and liabilities at historical net book value.

### Operating lease rentals

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

### Related party transactions

*The Company has taken advantage of the exemptions provided by FRS 8 not to disclose transactions between the Company and its subsidiaries.*

### Deferred taxation

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

## Notes to the financial statements

### 2 Segment analysis

The Group carries on its business in three geographical locations namely the UK, Italy and Israel. Its principal activity is investing into technology start up businesses.

| Activity                              | 2005<br>Turnover<br>£'000 | 2005<br>Operating<br>(loss)<br>£'000 | 2005<br>Net<br>assets<br>£'000 | 2004<br>Turnover<br>£'000 | 2004<br>Operating<br>(loss)<br>£'000 | 2004<br>Net<br>assets<br>£'000 |
|---------------------------------------|---------------------------|--------------------------------------|--------------------------------|---------------------------|--------------------------------------|--------------------------------|
| <b>Continuing Operations</b>          |                           |                                      |                                |                           |                                      |                                |
| Investment business                   | 570                       | (136)                                | 1,451                          | 669                       | (395)                                | 1,316                          |
| Share of associated undertakings      | -                         | (675)                                | 1,023                          | -                         | (1,186)                              | 1,451                          |
| Less share of associated undertakings | (570)                     | -                                    | -                              | (669)                     | -                                    | -                              |
|                                       | -                         | (811)                                | 2,474                          | -                         | (1,581)                              | 2,767                          |

### 3 Net operating expenses

|                                          | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------------------|---------------|---------------|
| <b>Recurring</b>                         |               |               |
| Administrative expenses                  | (258)         | (395)         |
| <b>Exceptional administrative credit</b> |               |               |
| Reversal of NIC provision (note 20)      | 122           | -             |
| <b>Total administrative expenses</b>     | (136)         | (395)         |

### 4 Share of operating loss of associated undertakings

|                                                    | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Share of operating loss of associated undertakings | (13)          | (11)          |
| Amortisation of goodwill on acquisition            | (662)         | (836)         |
| Impairment of goodwill                             | -             | (339)         |
|                                                    | (675)         | (1,186)       |

## Notes to the financial statements

### 5 Employee information

|                                                                           | 2005<br>Number       | 2004<br>Number       |
|---------------------------------------------------------------------------|----------------------|----------------------|
| <b>The average number of employees during the period were as follows:</b> |                      |                      |
| Management and operations                                                 | 1                    | 2                    |
|                                                                           | <b>2005<br/>£000</b> | <b>2004<br/>£000</b> |
| <b>Staff costs during the period including directors comprise:</b>        |                      |                      |
| Wages and salaries                                                        | 35                   | 95                   |
| Social security costs                                                     | -                    | -                    |
| Other pension costs                                                       | -                    | -                    |
|                                                                           | 35                   | 95                   |

### 6 Directors' remuneration

|                      | 2005<br>£'000 | 2004<br>£'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | 35            | 95            |
|                      | 35            | 95            |

There are no retirement benefits accruing to the Directors.

In addition to the emoluments above, £30,000 (2004: £Nil) was paid to a Director for compensation for loss of office and F. Gardin received £700 (2004: £700) for being a board member of ACS, a company in which the group has an investment stake.

#### Highest paid Director

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

|                      | 2005<br>£'000 | 2004<br>£'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | 23            | 85            |
|                      | 23            | 85            |

## Notes to the financial statements

### 7 Net interest payable

|                                                 | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Interest payable on 5% Convertible bond         | -             | (2)           |
| Interest payable on loan from major shareholder | -             | (9)           |
|                                                 | -             | (11)          |

### 8 Loss on ordinary activities before taxation

|                                                                              | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------------------------------------------------------|---------------|---------------|
| <b>Loss on ordinary activities before taxation is stated after charging:</b> |               |               |
| Depreciation of owned tangible fixed assets                                  | 35            | 36            |
| Amortisation of goodwill re associated undertakings                          | 662           | 1,175         |
| <b>Operating lease rentals:</b>                                              |               |               |
| Land and buildings                                                           | 170           | 170           |
| Office equipment                                                             | 10            | 25            |
| <b>Auditors' remuneration:</b>                                               |               |               |
| Audit of parent undertaking                                                  | 2             | 2             |
| Audit of subsidiary undertakings                                             | 13            | 13            |
| <b>Non audit services:</b>                                                   |               |               |
| Other services                                                               | 10            | 1             |

## Notes to the financial statements

### 9 Tax on loss on ordinary activities

|                                    | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------------|---------------|---------------|
| <b>Current Tax:</b>                |               |               |
| UK Corporation tax                 | -             | -             |
| Deferred taxation                  | -             | -             |
| Tax on loss on ordinary activities | -             | -             |

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

The Group's unutilised management expenses carried forward at 31 December 2005 amount to approximately £11 million (2004: £11 million).

The standard rate of tax for the current year, based on the UK standard rate of corporation tax is 30% (2004 – 30%). The actual tax for the current and previous year varies from the standard rate for the reasons set out in the following reconciliation:

|                                               | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------------------------|---------------|---------------|
| <b>Loss on ordinary activities before tax</b> | (930)         | (1,071)       |
| Tax on ordinary activities at standard rate   | (279)         | (321)         |
| <b>Effects of:</b>                            |               |               |
| Expenses not deductible for tax purposes      | 210           | 344           |
| Unutilised management expenses                | 82            | (2)           |
| Capital allowances in excess of depreciation  | (13)          | (21)          |
| <b>Current tax</b>                            | -             | -             |

### 10 Company profit and loss account

A profit and loss account for Brainspark Plc is not presented in accordance with the exemption allowed by Section 230 of the Companies Act 1985. The parent company's profit for the financial year amounted to £160,000 (2004: Loss £1,981,000).

## Notes to the financial statements

### 11 Loss per share

The loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

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

|                                            | (Loss)<br>£'000 | 2005<br>Weighted<br>average no<br>of shares<br>000's | Per<br>share<br>Amount<br>pence | (Loss)<br>£'000 | 2004<br>Weighted<br>average no<br>of shares<br>000's | Per share<br>Amount<br>pence |
|--------------------------------------------|-----------------|------------------------------------------------------|---------------------------------|-----------------|------------------------------------------------------|------------------------------|
| <b>Basic loss per share</b>                |                 |                                                      |                                 |                 |                                                      |                              |
| Loss attributable to ordinary shareholders | (930)           | 193,091                                              | (0.48)                          | (1,071)         | 192,273                                              | (0.56)                       |

Financial Reporting Standard No.22 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease earnings per share or increase net loss per share. For a loss making company with outstanding share options and warrants, net loss per share would only be increased by the exercise of out-of-the money options and warrants. Since it seems inappropriate that option holders would act irrationally, no adjustment has been made to diluted earnings per share for out-of-the money options and warrants as there are no other diluting share issues, diluted earnings per share equals basic earnings per share.

### 12 Tangible fixed assets

| Group                           | Leasehold<br>improvements<br>£'000 | Office<br>furniture and<br>equipment<br>£'000 | Computer<br>software and<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------|------------------------------------|-----------------------------------------------|------------------------------------------------|----------------|
| <b>Cost</b>                     |                                    |                                               |                                                |                |
| At 1 January 2005               | 288                                | 401                                           | 821                                            | 1,510          |
| At 31 December 2005             | 288                                | 401                                           | 821                                            | 1,510          |
| <b>Accumulated depreciation</b> |                                    |                                               |                                                |                |
| At 1 January 2005               | 263                                | 390                                           | 813                                            | 1,466          |
| Charge for the year             | 20                                 | 8                                             | 7                                              | 35             |
| At 31 December 2005             | 283                                | 398                                           | 820                                            | 1,501          |
| <b>Net book amount</b>          |                                    |                                               |                                                |                |
| At 31 December 2005             | 5                                  | 3                                             | 1                                              | 9              |
| At 31 December 2004             | 25                                 | 11                                            | 8                                              | 44             |

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

## Notes to the financial statements

### 13 Investment in subsidiary undertakings

| Company                       | Shares<br>£'000 |
|-------------------------------|-----------------|
| <b>Cost</b>                   |                 |
| At 1 January 2005             | 5,976           |
| At 31 December 2005           | 5,976           |
| <b>Provisions</b>             |                 |
| At 1 January 2005             | (4,359)         |
| Adjustments to carrying value | (437)           |
| At 31 December 2005           | (4,796)         |
| <b>Net book amount</b>        |                 |
| At 31 December 2005           | 1,180           |
| At 31 December 2004           | 1,617           |

The Company's investments in its subsidiaries are held at net asset value and accordingly the movements in the reserves of the Company's subsidiaries are reflected in the adjustments to the carrying value of the Company's investments in subsidiaries.

The Company's subsidiary undertakings at 31 December 2005 were as follows:

| Subsidiaries                      | Country<br>of<br>incorporation | %<br>owned | Nature of<br>Business                                                |
|-----------------------------------|--------------------------------|------------|----------------------------------------------------------------------|
| Brainspark Associates Limited     | England                        | 100        | Internet incubation                                                  |
| Brainspark Private Equity Limited | England                        | 100        | Not trading                                                          |
| Brainspark Services Limited       | England                        | 100        | Not trading                                                          |
| Infusion 2002 Limited             | England                        | 100        | Holding company for a portfolio of incubation and hi-tec investments |
| Abbotcrown Limited                | England                        | 100        | Not trading                                                          |

## Notes to the financial statements

### 14 Investments in associated undertakings

| Group                                            | Investments<br>in associated<br>undertakings<br>£'000 | Loans to<br>associated<br>undertakings<br>£'000 | Total<br>£'000 |
|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------|----------------|
| <b>Share of net assets / (liabilities)</b>       |                                                       |                                                 |                |
| At 1 January 2005                                | 28                                                    | -                                               | 28             |
| Share of loss for the year                       | (13)                                                  | -                                               | (13)           |
| At 31 December 2005                              | 15                                                    | -                                               | 15             |
| <b>Goodwill</b>                                  |                                                       |                                                 |                |
| At 1 January 2005                                | 1,313                                                 | -                                               | 1,313          |
| Amortisation of goodwill                         | (662)                                                 | -                                               | (662)          |
| At 31 December 2005                              | 651                                                   | -                                               | 651            |
| <b>Cost</b>                                      |                                                       |                                                 |                |
| At 1 January 2005                                | -                                                     | 410                                             | 410            |
| Transfer to debtors                              | -                                                     | (300)                                           | (300)          |
| Further advances in the year                     | -                                                     | 56                                              | 56             |
| Further advance as a result of set-off agreement | -                                                     | 191                                             | 191            |
| At 31 December 2005                              | -                                                     | 357                                             | 357            |
| <b>Provisions</b>                                |                                                       |                                                 |                |
| At 1 January 2005                                | -                                                     | (300)                                           | (300)          |
| Transfer to debtors                              | -                                                     | 300                                             | 300            |
| At 31 December 2005                              | -                                                     | -                                               | -              |
| <b>Net book amount</b>                           |                                                       |                                                 |                |
| At 31 December 2005                              | 666                                                   | 357                                             | 1,023          |
| At 31 December 2004                              | 1,341                                                 | 110                                             | 1,451          |

**14 Investments in associated undertakings (continued)**

| <b>Name</b>    | <b>Number of shares held</b> | <b>% owned</b> | <b>Class of shares</b> | <b>Country of incorporation</b> | <b>Business Activity</b>       |
|----------------|------------------------------|----------------|------------------------|---------------------------------|--------------------------------|
| Fortune Cookie | 62,600                       | 29.4           | 1p A Ordinary          | England                         | Web development                |
| GeoSim         | 246,262                      | 54.66          | .001 NIS               | Israel                          | 3D Geographic modelling cities |
| Impression     | 50,000                       | 20.0           | € 1 Ordinary           | Italy                           | In liquidation                 |
| Kerb           | 30,167                       | 25.0           | 1p A Ordinary          | England                         | Web development                |
| TraderServe    | 1,250,000                    | 34.6           | 0.1p A Ordinary        | England                         | Proprietary trading services   |

Brainspark has advanced a total of £357,000 (equivalent to \$600,000) in funding to GeoSim since July 2004, for which it will receive an additional 1% of the fully diluted share capital. Of this advance, £191,000 has been settled as the result of the set-off agreement between the company, GeoSim and AiSoftw@re. The amounts advanced at the balance sheet date have been disclosed under loans to associated undertakings until the shares are issued.

GeoSim has not been treated as a subsidiary on consolidation as a third party investor had provided GeoSim with further funding in the period, for which they will receive preferred shares, and been granted the right to purchase 50% of the existing shareholders' shares at a pre agreed valuation. In addition GeoSim had granted outstanding shares options that were exercisable at the year end. The issue of these and Brainspark's shares together with the exercise of the outstanding share options will ultimately dilute the group's interest to 47.45% and consequently this dilution, together with the purchase right, constitutes a significant restriction over the group's ability to exercise control over GeoSim.

The group's interest in EasyArt's issued capital has been diluted to 19.9% in the year and the group's interest has been accordingly reclassified as an investment. This has no effect on the results for the period as the group's stake and loans to EasyArt have been carried at £Nil in the financial statements.

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

|                                 | <b>2005<br/>£'000</b> | <b>2004<br/>£'000</b> |
|---------------------------------|-----------------------|-----------------------|
| Turnover                        | 570                   | 669                   |
| Fixed assets                    | 58                    | 21                    |
| Current assets                  | 268                   | 240                   |
| Liabilities due within one year | (462)                 | (366)                 |
| Liabilities due after one year  | (70)                  | (72)                  |

## Notes to the financial statements

### 14 Investments in associated undertakings (continued)

The group's share of GeoSim is as follows:

|                                 | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------------|---------------|---------------|
| Turnover                        | 100           | 98            |
| Loss before and after tax       | (246)         | (218)         |
| Fixed assets                    | 51            | 80            |
| Current assets                  | 25            | 55            |
| Liabilities due within one year | (331)         | (232)         |
| Liabilities due after one year  | (70)          | (5)           |
| Share of net assets             | (325)         | (102)         |

As GeoSim accounts for nearly all the aggregate amounts included for associates, information has not been given in respect of the other associates.

### 15 Other investments

| Group                          | £'000 |
|--------------------------------|-------|
| <b>Cost or Valuation</b>       |       |
| At 1 January 2005              | 1,549 |
| Call -option "initial payment" | (300) |
| Provision against investments  | (119) |
| At 31 December 2005            | 1,130 |
| At 31 December 2004            | 1,549 |

#### Grant of call option over the Company's shares in Infusion 2002 Limited

It was agreed pursuant to an agreement signed on 8 August 2005 ("the Call Option Agreement") to grant a call option (the "Option") to AISoftware SpA ("AIS") over the entire issued share capital of Brainspark's wholly owned subsidiary, Infusion 2002 Limited ("Infusion"). Infusion holds a 16.21 per cent investment in Advanced Computer Systems SpA ("ACS"), an Italian based software company, which was held at a book value of £1.43 million prior to the option set-off. The exercise price of the Option is £1.43 million. Pursuant to the Option, the Group received an initial non-refundable payment of £300,000; which has been offset against the book value of the investment. This was satisfied by the release by AIS and its group companies of all debts owed directly or indirectly by the Company and Infusion. A further payment of £1,130,000 is payable on exercise of the Option to be satisfied, subject to the consent of AIS shareholders and appropriate provisions of the Italian Civil Code, by the issue of new ordinary shares in AIS. AIS is listed on the Nuovo Mercato of the Milan Stock Exchange. The Nuovo Mercato in Milan has broadly similar status to AIM in London. The Company may terminate the Option at any time prior to 31 July 2006 (when the Option would otherwise expire) provided it repays the Initial Payment, together with a further payment of £50,000. The Company has provided certain limited warranties to AIS.

Other investments comprise a 5.89 per cent investment in the ordinary share capital of MetaPack Limited and a 19.9% investment in EasyArt, together with a 16.21 per cent investment in ACS.

## Notes to the financial statements

### 16 Debtors

|                                            | Group<br>2005<br>£'000 | Group<br>2004<br>£'000 | Company<br>2005<br>£'000 | Company<br>2004<br>£'000 |
|--------------------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| <b>Amounts falling due within one year</b> |                        |                        |                          |                          |
| Amounts owed by subsidiary undertakings    | -                      | -                      | 1,942                    | 1,127                    |
| Amounts owed by associated undertakings    | 158                    | 181                    | -                        | -                        |
| Other debtors                              | 58                     | 120                    | 300                      | -                        |
| Prepayments and accrued income             | 51                     | 51                     | -                        | -                        |
| <b>Amounts falling due after one year</b>  |                        |                        |                          |                          |
| Other debtors                              | 60                     | 110                    | -                        | -                        |
|                                            | 327                    | 462                    | 2,242                    | 1,127                    |

### 17 Cash at bank in hand

|                                   | Group<br>2005<br>£'000 | Group<br>2004<br>£'000 | Company<br>2005<br>£'000 | Company<br>2004<br>£'000 |
|-----------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Bank current and deposit accounts | 446                    | 28                     | -                        | -                        |
|                                   | 446                    | 28                     | -                        | -                        |

### 18 Creditors: amounts falling due within one year

|                                 | Group<br>2005<br>£'000 | Group<br>2004<br>£'000 | Company<br>2005<br>£'000 | Company<br>2004<br>£'000 |
|---------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Interest-free convertible loans | 213                    | -                      | 213                      | -                        |
| Trade creditors                 | 105                    | 267                    | -                        | -                        |
| Other creditors                 | 30                     | 176                    | -                        | -                        |
| Social security                 | 58                     | -                      | -                        | -                        |
| Accruals                        | 55                     | 202                    | 32                       | 364                      |
|                                 | 461                    | 645                    | 245                      | 364                      |

#### Interest-free convertible loans

The company issued £850,000 in interest free convertible loans, of which, £637,000 were converted into share capital by 31 December 2005. The remaining convertible loans of £213,000 at 31 December 2005 are held by F. Gardin.

The Loan Stock is convertible into shares at any time prior to its repayment and at any time prior to 31 March 2006 at the Company's option. The Company and Professor Gardin have subsequently agreed that neither would exercise their right to demand conversion on or before 31 March 2006 and that the repayment date for the Loan Stock will be postponed to 31 December 2007 with the effect that the rights of either party to demand conversion has been extended to the same date. The Loan Stock is unsecured and convertible into ordinary shares at the price of 0.46p per share.

## 19 Financial instruments

The Group's financial instruments comprise cash, trade debtors and trade creditors that arise from its operations and convertible loans. The main purpose of these financial instruments is to provide finance for the Group's future investments and day to day operational needs. The Group does not enter into any derivative transactions such as interest rate swaps or forward foreign exchange contracts as the Group does not have any significant foreign currency transactions nor does it have any borrowings. The main risks faced by the Group are therefore limited to interest rate risk on surplus cash deposits and liquidity risk associated with raising sufficient funding to meet the operational needs of the business. The Board reviews and agrees policies for managing these risks and they are summarised below.

### ***Interest rate risk***

Any surplus cash funds are deposited with highly credit rated third party banks and the interest rates earned and security of these balances are monitored on a regular basis against competing financial institutions products.

### ***Liquidity risk***

Adequate cash resources currently exist to meet the day to day working capital requirements of the Group and the securing of additional sources of funding is an ongoing process.

### ***Interest rate risk of financial assets***

The composition of the Group's financial assets are set out below:

| Group                    | 2005<br>£'000 | 2004<br>£'000 |
|--------------------------|---------------|---------------|
| Sterling deposits        | 439           | -             |
| Cash at bank and in hand | 7             | 28            |
|                          | 446           | 28            |

The sterling cash deposits have earned a floating rate of interest during the year based on bank rates of 0.8% to 1.3%; based on average balances.

### ***Interest rate risk of financial liabilities***

The Group has no formal overdraft or loan facilities with bankers and the Group's creditors falling due within one year at the year end are of a short term nature.

### ***Fair values of financial assets and liabilities***

At 31 December 2005 and 31 December 2004 there was no material difference between the book value and fair value of the financial assets and liabilities.

### ***Foreign currency exposures***

The Group had no material exposure to foreign currency movements at 31 December 2005; with the exception of £59,000 due from GeoSim which is payable in a mixture of US dollars and Euros. The group's functional currency is sterling. The group's monetary assets and liabilities at 31 December 2005 were denominated in sterling, with the exception of the GeoSim debt.

## Notes to the financial statements

### 20 Provision for liabilities and charges

| Group                                                          | NIC on<br>share<br>warrants<br>£'000 | Total<br>£'000 |
|----------------------------------------------------------------|--------------------------------------|----------------|
| At 1 January 2005                                              | 122                                  | 122            |
| Release of unutilised provision to the profit and loss account | (122)                                | (122)          |
| <b>At 31 December 2005</b>                                     | -                                    | -              |

#### *National Insurance Contributions on Share Warrants*

The above provision represented a potential liability to Employer's National Insurance on the exercise of share options issued to former employees over shares in the company. The group has received confirmation that no liability exists.

### 21 Called up share capital

#### Group and Company

|                               | 2005<br>Number | 2004<br>Number | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------|----------------|----------------|---------------|---------------|
| <b>Authorised</b>             |                |                |               |               |
| Ordinary shares of 1p each    | -              | 500,000,000    | -             | 5,000         |
| Ordinary shares of 0.01p each | 500,000,000    | -              | 50            | -             |
| Deferred shares of 0.01p each | 49,500,000,000 | -              | 4,950         | -             |
|                               | 50,000,000,000 | 500,000,000    | 5,000         | 5,000         |

|                                            | 2005<br>Number | 2004<br>Number | 2005<br>£'000 | 2004<br>£'000 |
|--------------------------------------------|----------------|----------------|---------------|---------------|
| <b>Allocated, called up and fully paid</b> |                |                |               |               |
| Ordinary shares of 1p each                 | -              | 192,273,091    | -             | 1,923         |
| Ordinary shares of 0.01p each              | 330,697,003    | -              | 33            | -             |
| Deferred shares of 0.01p each              | 19,035,036,009 | -              | 1,903         | -             |
|                                            | 19,365,733,012 | 192,273,091    | 1,936         | 1,923         |

Following an Extraordinary General Meeting held on 3<sup>rd</sup> March 2005, resolutions were passed to effect the sub-division of each of the existing issued ordinary shares of 1p into one new ordinary share of 0.01p ("New Ordinary Shares") and 99 new deferred shares of 0.01p ("Deferred Shares").

On 31<sup>st</sup> December 2005 138,423,912 New Ordinary Shares were issued following the application by certain loan stockholders to convert their loans. In total loans amounting to £637,000 were converted into share capital at a price of 0.046p per share. This generated share premium of £624,000.

The deferred shares carry no voting or dividend rights. They have the rights to receive one-billionth of 1p per share on a winding up after the holders of the new ordinary shares have received a dividend of £1 billion in aggregate from the winding up.

## Notes to the financial statements

### 22 Reserves

| Group                    | Share premium<br>£'000 | Other reserve<br>£'000 | Profit and loss account<br>£'000 | Total<br>£'000 |
|--------------------------|------------------------|------------------------|----------------------------------|----------------|
| At 1 January 2005        | 28,562                 | 6,813                  | (34,531)                         | 844            |
| Issue of new shares      | 624                    | -                      | -                                | 624            |
| Retained loss for year   | -                      | -                      | (930)                            | (930)          |
| At 31 December 2005      | 29,186                 | 6,813                  | (35,461)                         | 538            |
| <b>Company</b>           |                        |                        |                                  |                |
| At 1 January 2005        | 28,562                 | -                      | (28,105)                         | 457            |
| Issue of new shares      | 624                    | -                      | -                                | 624            |
| Retained profit for year | -                      | -                      | 160                              | 160            |
| At 31 December 2005      | 29,186                 | -                      | (27,945)                         | 1,241          |

Other reserve represents a merger reserve amounting to £6,813,000 arising on the acquisition by the Company of the entire share capital of Brainspark Associates Limited.

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

| Group                                              | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Operating loss                                     | (136)         | (395)         |
| Depreciation charge                                | 35            | 36            |
| Rental income converted into shares in investments | -             | (19)          |
| Decrease in debtors                                | 30            | 53            |
| (Decrease)/ increase in creditors                  | (104)         | 85            |
| Reduction in provision for liabilities and charges | (122)         | -             |
| <b>Net cash outflow from operating activities</b>  | <b>(297)</b>  | <b>(240)</b>  |

## Notes to the financial statements

### 24 Analysis of changes in net funds / (debt)

| Group                    | At 1<br>January<br>2005<br>£'000 | Cash<br>flow<br>£'000 | Other<br>non-<br>cash<br>changes<br>£'000 | At 31<br>December<br>2005<br>£'000 |
|--------------------------|----------------------------------|-----------------------|-------------------------------------------|------------------------------------|
| Cash at bank and in hand | 28                               | 418                   | -                                         | 446                                |
| Debt due within 1 year   | (173)                            | (677)                 | 637                                       | (213)                              |
|                          | (145)                            | (259)                 | 637                                       | 233                                |

Other non-cash changes in the analysis of changes in net debt relates to the conversion on 29 December 2005 of £637,000 of the company's convertible loan notes into 0.01p shares.

### 25 Reconciliation of cash flow to movement in net funds /(debt)

| Group                                       | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------------------------|---------------|---------------|
| Increase / (decrease) in cash in the period | 418           | (40)          |
| Cash inflow from increase in debt           | (677)         | (22)          |
| Change in net debt resulting from cash flow | (259)         | (62)          |
| Conversion of loan into share capital       | 637           | -             |
| Movement in net funds in the period         | 378           | (62)          |
| Net debt at 1 January                       | (145)         | (83)          |
| Net funds (debt) at 31 December             | 233           | (145)         |

### 26 Operating lease commitments

Operating lease rentals payable during the next year are as follow:

|                             | Land and buildings |               | Office equipment |               |
|-----------------------------|--------------------|---------------|------------------|---------------|
|                             | 2005<br>£'000      | 2004<br>£'000 | 2005<br>£'000    | 2004<br>£'000 |
| <b>Commitments expiring</b> |                    |               |                  |               |
| Within one year             | 42                 | -             | -                | -             |
| Between two and five years  | -                  | 170           | -                | 19            |
|                             | 42                 | 170           | -                | 19            |

## Notes to the financial statements

### 27 Related party transactions

Brainspark Associates Limited provided accommodation and management services to its associated undertakings and investee companies during the year and recharged the cost of utilities and IT equipment incurred on behalf of investee companies. The total amounts recharged during the year were £327,000 (2004: £253,000) and the amounts due from investee companies at 31 December 2005 included in debtors were £130,000 (2004: £141,000) inclusive of VAT and net of £28,000 in provisions (2004: £41,000 provision).

The amounts outstanding in loans to associated undertakings and other investments at 31 December 2005 were £385,000 (2004: £150,000) after provisions and £685,000 (2004: £360,000) before provisions. These include £357,000 (2004: £110,000) loan to GeoSim which is convertible into equity and shown as a fixed asset investment (note 14) and £28,000 (2004: £40,000) of short term loans included in debtors, together with a loan of £300,000 (2004: £300,000) to EasyArt which is fully provided against.

During the year the company repaid the loan to Cross Atlantic Technology Fund a major shareholder in the company, of £100,000 together with commercial interest of £11,000 which was due.

Creditors also include amounts outstanding to F. Gardin of £13,000 (2004: £13,000) in respect of unpaid remuneration and £213,000 (2004: £Nil) in respect of convertible loans.

F. Gardin had an interest in the grant of a call option to AIS over the company's shares in Infusion 2002 Limited, by virtue of being a director in both Companies. E. Burman was owed £Nil (2004: £8,750) at 31 December 2005 in outstanding director's fees.

The Board appointed independent directors to negotiate the transaction. After consulting with the company's nominated advisors; the independent directors considered that the transaction was fair and reasonable as far as the shareholders were concerned.

At 31 December 2005 the company owed AiSoftw@re, a company which F. Gardin is Chairman, £Nil (2004: £148,000) in respect of accommodation, reimbursable costs and other ancillary services provided, this amount is included within trade creditors.

### 28 Ultimate controlling party

The company has no ultimate controlling party.