NewMedia SPARK

Interim Report for the
six months to 30 September 2005

Investors in Technology, Digital Media & Telecoms

About SPARK

NewMedia SPARK ('SPARK') is a venture capital investor based in London and listed on the Alternative Investment Market (AIM) of the London Stock Exchange. Formed in 1999, SPARK has built up a portfolio of investments in the technology, media and telecom sectors (TMT) ranging from enterprise software to digital media and semiconductors. As an investor, SPARK expects to add value to its investments through active support and strategic direction. Our investment approach is to make a limited number of investments in early stage companies with the objective of developing significant capital growth over the medium term. We typically take a lead investor role, own 20% or more of a company, hold a board seat and expect to invest through the growth cycle to full value.

✶ Business & Financial Highlights

- Net Assets per share up by 9.4% to 14.0p (March 2005: 12.8p).
- Cash sale of FootFall Ltd to generate cash of £5m for SPARK's holding, a 100% uplift on cost from £2.5m invested in stages over 2000, 2001 and 2002. Book value in March 2005 was £3.8m.
- Sale of SPARK's holding in Elata in August for £1.5m consideration represents a 130% uplift over cost and book value.
- Strong valuation growth of 15.6% amongst companies within the portfolio will permit increased cash reserves to be used to effect more buy-backs and allow new investments.
- Cash balances at 30 September are £19.9m, not including the cash proceeds from the sale of the FootFall holding.

✶ Chief Executive's Review

The level of value momentum in the portfolio as a whole has grown significantly over the last six months

INVESTMENT VALUES AND EXITS

In the first half of this year, the value of our investment portfolio has risen by £6.2m, compared to £6.6m for the whole of the year ending March 2005. Of this gain, £5.3m has been shown as an unrecognised gain in the Consolidated Statement of Total Recognised Gains and Losses, and £0.9m has been recognised on the face of the Profit & Loss statement. The remaining £0.6m contained within the gains from investments line on the profit and loss statement was from the sale of a dormant subsidiary.

The sale of FootFall demonstrates the point that good companies with a leading position in fast growing markets can attract prices that reflect their strategic value as well as that derived from a multiple of their revenues and earnings. FootFall's position as the largest company in the world outside the US providing count data and analysis of pedestrian traffic in retail environments, with a high quality client base, was as important to the buyer as its current revenues. Nonetheless, FootFall is profitable, is growing rapidly and would also have made a good IPO candidate in the next year in any event. Whilst the sale completed after the period end, we have written up the carrying value of our investment in FootFall by £1.3m to reflect the eventual sale proceeds. We are pleased to have led the investment in 2000, and assisted the development of this company throughout its early stages. It is a good example of SPARK's role in early stage investing in the UK.

The sale of Elata in August to Qualcomm Inc for $57m is another example of assets within the portfolio that have obtained a strategic value in excess of that derived from a simple multiple of earnings. The company had developed a content delivery and device management software system for mobile phones and had made sales to Orange, among others. In the light of the growth in the mobile content sector, it was clearly the quality of this platform and its ability to win substantial clients that was of value to Qualcomm. Of the £1.5m of proceeds from the sale of this investment, £0.3m will be held in reserve for the warranty period.

In addition, the final £1.1m of proceeds from the sale of Pricerunner held as a warranty reserve was released in August without any claims being made against it. Both Elata and Pricerunner were in an early stage of revenue growth and had acquired significant customer traction, but were not sufficiently mature to reflect their full value through net earnings – which is the main measure we are obliged to rely on in order to value our portfolio in accordance with British Venture Capital Association guidelines and prudent accounting policy.

PORTFOLIO

Since April we have seen the value of the portfolio, excluding those companies sold, rise by 15.6%. The major valuation changes were as follows:

Mergermarket

Mergermarket is now the largest company in the portfolio by value. It is an independent M&A (Mergers & Acquisitions) intelligence tool used by many of the world's leading financial institutions to originate deals. It provides proprietary intelligence on potential deal flow, potential mandates and valuations through what is now believed to be the world's largest group of M&A journalists and analysts (over 150), who have direct access to many senior decision-makers and corporates. In our last report we mentioned that the company had launched dedicated products for the US and Latin American markets. Since then, it has also launched in the Asia Pacific region and has launched a new and unique product, 'Wealth Monitor'. Wealth Monitor uses often proprietary information derived from the transactions data generated by other products in the company to anticipate those who are becoming newly wealthy from transactions, public and private, in progress. It is expected that the product will generate substantial interest from private bankers and other suppliers providing services to this customer group.

The company continues to perform very strongly and for the first ten months of its financial year is delivering revenues that are approximately 80% up on the previous year. Subscription renewals are running over 95%. More importantly for the valuation in these interim results, the operating profits are now becoming substantial and are up by more than 240% on the prior year. The effect is that we have now increased the earnings based valuation by £5m to £13m in our books for the half year to 30 September. The company has cash reserves of £5m.

Aspex

Aspex is a fabless semiconductor company developing high-performance, software programmable 'Extreme Processors' for the image processing market. After spinning out from Brunel University in 1999, the company began making sales of its 'Linedancer' chip in January 2005 and now has had 25 'design wins' for products in the medical imaging, film processing, machine vision and printing markets. Many of these design wins are followed by a lengthy period of evaluation by a customer while they decide whether to design the Aspex chip into one of their products. In order to shorten this sales cycle, the company launched a 'plug and play' encoder board for high speed image encoding in September. Initial signs are promising that sales of both these boards and the embedded chip are gaining good momentum, with revenues achieved in the first half of their year already exceeding prior year sales.

At the time of writing the company has received a draft term sheet for funding from another Venture Capitalist which it is considering. Based on the valuations offered in these discussions we have taken the view that the value of our 68% holding should be written down by £2m to £10.1m, despite the fact that its peers in the public markets achieve much higher valuations.

IMI

Based in Hyderabad, IMI provides design, services and products to the mobile industry in India. Its principal business is the provision of content, management systems and data services to India's largest Mobile Operators. Revenues for this business are currently running at twice those for their year ended March 2005 and the company has achieved a milestone in winning major contracts with Trinidad & Tobago Telecomms and Yahoo for services delivered outside India. Within India, the expansion of the mobile network continues to grow extremely rapidly with over 2m new subscriptions taken out nationwide every month (or one every 1.3 seconds). The combination of the domestic and international growth provides IMI with substantial opportunities. The company now has over 250 employees.

The valuation of our 47% holding in IMI at our year end in March 2005 was set by reference to the last transaction in IMI shares. In the light of the continuing development of the business we have taken the view that all previous write downs can be reversed, with the consequence that we can write the value back up by £1m, to a cost of £3.1m. We would expect to be able to replace this with an earnings based valuation by next March which would have a positive effect on its valuation again.

DX3

DX3 is a distribution platform for the secure delivery of digital media. With the explosion of new methods for delivering content to consumers, media owners are struggling to keep up with the preparation, collation, authorisation, delivery and reporting of media delivered in all the various formats (downloads, real tones, polyphonic ring tones, wall papers, games, video, podcasts, digital TV etc). They also remain extremely concerned about the security of their media assets when many devices are now capable of 'super-distribution'.

Until May 2005, DX3's core business was the distribution of legal media assets to PC's. During the period SPARK has invested £1.5m to develop the company's capacity to deliver not only to wired devices such as PC's, but also to wireless devices such as mobile phones. The DX3 difference is not so much in its technology as in its ability to apply technology solutions to securely deliver officially licensed digital entertainment content. In view of this, the company has been able to obtain the only multi-platform licences to legally distribute, as a reseller, digital entertainment content on behalf of all the major record companies such as Universal and EMI, as well as independents. Since obtaining these licences, the company has become the real tone provider for Emap's Music TV channels (such as The Hits, Kerrang, The Box etc.), Woolworths and Eckoh amongst others. SPARK owns 54% of this business which is now carried on our books at £2.3m following the latest investment.

Kobalt

The final notable movement in our investment valuations is in our holding of Kobalt. Kobalt is a music publisher that uses its proprietary technology to deliver fast, transparent and accurate royalty revenue collection for music owners and songwriters. The company has signed up leading songwriters for the likes of Gwen Stefani, Eminem and Kelly Clarkson. It achieved a near trebling of revenues in the year and now appears regularly in the top ten publishers in the country having been created at SPARK only five years ago. On the strength of these results, the company has raised a new round of funding which was oversubscribed and at a higher valuation, thereby allowing us to write up the value of our investment by £0.7m to £2.9m.

CASH

Cash balances are £19.9m at 30 September 2005 (£21.7m at March 2005) – after administrative costs of £2.8m, new investments of £3.8m and share buy-backs of £0.5m. Of this balance, £2.9m is in a locked account following the capital reconstruction completed in October 2004. Proceeds from the sale of the stake in FootFall will add another £5m to our cash balances.

OPERATIONS

Administrative expenses of £2.8m, which include property costs of £0.8m, are £0.8m up on the half year to September 2004. The change arises from the first instance of a payout (£0.6m and associated NI) under the rules of the carry incentive scheme adopted by the company in 2003. This was triggered largely by the successful cash exit from Pricerunner for £6.5m. In addition to this, an accrual has been made for another payment under the scheme for the successful sale of FootFall (£0.3m and associated NI). Away from these carry items, administrative costs overall were £0.2m lower and rental income was £0.2m higher, on a like for like basis, than the half year to September 2004.

BUY-BACKS

In conjunction with the circulation of these interim statements, the company is convening an EGM to seek approval from shareholders to increase the authority for directors to conduct buy-backs from the current limitation of 10% of SPARK's issued shares, to 20% of SPARK's issued shares, reserves permitting. To date the company has purchased 14.5m of its own shares into treasury, representing 3% of its share capital. The average price at which these shares have been bought back is 10.7p, representing a 24% discount to the current net assets per share of 14.0p, and has cost the company £1.5m in total. The original authority granted to the directors to conduct share buy-backs was set at the lower of 10% of the company's share capital or £5m. In view of the increasing cash balances and the maturing of the portfolio reflected in the improving net asset value, the Directors have taken the view that it would be in the best interests of all shareholders to raise the authority so as to allow them to pursue a more aggressive buy-back policy.

CONCLUSION

As anticipated in the preliminary announcement for the year ending March 2005, we have been able to deliver more evidence of the value in our portfolio. Whilst we still have investments in businesses requiring some further funding, namely Aspex and DX3, we have sufficient cash to support them, and the level of value momentum in the portfolio as a whole has grown significantly over the last six months. Indeed, certain of those investments, most notably Mergermarket, are now delivering visibility of value - in the form of revenues and profits - that allow us to reflect their very rapid growth in our accounts. The Board are confident that there will be more examples of exits above book value over the coming twelve months that should continue to add value to net assets. In addition, the quality of investment opportunities remains strong, with substantially fewer long-term, early stage investors in the market seeking to fund them.

Andrew Carruthers
Chief Executive
20 December 2005

✶ Independent Review Report to NewMedia SPARK plc

INTRODUCTION

We have been instructed by the company to review the financial information for the six months ended 30 September 2005 which comprises the consolidated statement of total recognised gains and losses, the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the consolidated reconciliation of shareholders' funds and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2005.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
20 December 2005

✶ Consolidated Profit and Loss Account

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Administrative expenses			
Salaries and other staff costs	**(1,512)**	(744)	(1,373)
Other administrative and operating costs	**(1,000)**	(958)	(1,531)
Depreciation	**(75)**	(125)	(222)
Other costs	**(181)**	(158)	(328)
Total administrative expenses	**(2,768)**	(1,985)	(3,454)
Other operating income	**725**	535	1,258
Operating loss	**(2,043)**	(1,450)	(2,196)
Gains from investments	**1,546**	2,104	321
Interest receivable and similar income	**604**	354	909
Profit / (loss) on ordinary activities before taxation	**107**	1,008	(966)
Tax (charge) / credit on loss on ordinary activities	**–**	–	–
Profit / (loss) on ordinary activities after taxation	**107**	1,008	(966)
Equity minority interests	**–**	–	–
Retained profit / (loss) for the period	**107**	1,008	(966)
Basic and diluted earnings / (loss) per ordinary share	**0.02p**	0.22p	(0.21p)

✶ Consolidated Statement of Total Recognised Gains and Losses

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Profit / (loss) for the financial period	**107**	1,008	(966)
Unrealised gain / (loss) on investments	**5,268**	(1,721)	6,280
Foreign currency translation	**(16)**	311	460
Prior year adjustment	**–**	–	(630)
Total recognised gains and losses in the period	**5,359**	(402)	5,144

✶ Reconciliation of Movements in Consolidated Shareholders' Funds

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Profit / (loss) for the financial period	**107**	1,008	(966)
Other recognised gains and losses for the period	**5,252**	(1,410)	6,740
Reversal of amortisation of own shares	**–**	108	217
Reduction in capital reserve on lapse of warrants	**(504)**	–	(1,043)
Proceeds of issues of shares	**–**	–	75
Net increase / (reduction) in shareholders' funds	**4,855**	(294)	5,023
Opening shareholders' funds	**57,996**	52,973	52,973
Closing shareholders' funds	**62,851**	52,679	57,996

✶ Consolidated Balance Sheet

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Fixed assets			
Tangible assets	**755**	930	848
Investments	**42,962**	30,654	35,013
	43,717	31,584	35,861
Current assets			
Debtors	**2,000**	5,041	2,351
Restricted cash	**2,869**	413	2,869
Cash at bank and in hand	**17,069**	17,836	18,815
	21,938	23,290	24,035
Creditors: amounts falling due within one year	**(2,615)**	(1,452)	(1,711)
Net current assets	**19,323**	21,838	22,324
Total assets less current liabilities	**63,040**	53,422	58,185
Provision for liabilities and charges	**(189)**	(743)	(189)
Net assets	**62,851**	52,679	57,996
Capital and reserves			
Called up share capital	**11,818**	11,799	11,818
Own shares held by EBT	**(413)**	(522)	(413)
Share premium account	**39,693**	183,371	39,693
Revaluation reserve	**(18,835)**	(33,113)	(24,103)
Profit and loss account	**30,588**	(108,856)	31,001
Equity shareholders funds	**62,851**	52,679	57,996
Net Asset Value per share	**14.0p**	11.4p	12.8p

	Number '000	Number '000	Number '000
Ordinary shares in issue	**472,736**	471,986	472,736
Shares held in treasury	**(14,500)**	-	(9,750)
Shares held by Employee Benefit Trust	**(9,269)**	(9,819)	(9,569)
Shares in issue for net asset per share calculation	**448,967**	462,167	453,417

✶ Consolidated Cash Flow Statement

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Net cash outflow from operating activities	**(1,006)**	(1,011)	(1,993)
Return on investments and servicing of finance			
Interest received	**604**	354	909
Dividend received	**–**	5,787	5,787
Net cash inflow from returns on investments and servicing of finance	**604**	6,141	6,696
Taxation			
UK Corporation tax paid	**–**	–	–
Overseas tax paid	**–**	(2,228)	(279)
Net cash outflow from taxation	**–**	(2,228)	(279)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	**(2)**	–	(16)
Proceeds from disposal of fixed assets	**20**	5	5
Payments to acquire investments	**(3,745)**	(753)	(3,990)
Receipts from sales of investments	**2,887**	4,812	10,856
Net cash (outflow) / inflow from investing activities	**(840)**	4,064	6,855
Net cash (outflow) / inflow before financing	**(1,242)**	6,966	11,279
Financing			
Issue of ordinary share capital	**–**	–	75
Purchase of own shares	**(504)**	–	(1,043)
Transfer into restricted cash in accordance with court order	**–**	–	(2,437)
Net cash outflow from financing	**(504)**	–	(3,405)
Net cash (outflow) / inflow in the period	**(1,746)**	6,966	7,874

✶ Notes to the Interim Report

1 The information relating to the six month periods ended 30 September 2005 and 30 September 2004 is unaudited. The information relating to the period ended 31 March 2005 is extracted from the audited accounts of the Company which have been filed at Companies House and on which the auditors issued an unqualified opinion.

2 The above financial information does not constitute statutory accounts within the meaning of Section 240 Companies Act 1985.

3 Earnings / (loss) per share is based on the weighted average number of shares in issue during the six months ended 30 September 2005 of 451,360,000 (31 March 2005: 460,178,000).

4 Analysis of changes in net funds

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Net cash (outflow) / inflow in the period	**(1,746)**	6,966	7,874
Foreign exchange differences	–	10	81
(Decrease) / increase in cash in the period	**(1,746)**	6,976	7,955

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

	Six months to 30 September 2005 £'000 Unaudited	Six months to 30 September 2004 £'000 Unaudited	Year to 31 March 2005 £'000 Audited
Operating loss	**(2,043)**	(1,450)	(2,196)
Depreciation	**75**	125	222
Decrease in debtors	**41**	4,868	4,766
Increase / (decrease) in creditors	**921**	(4,598)	(4,873)
Non-cash remuneration	–	44	88
Net cash outflow from operating activities	**(1,006)**	(1,011)	(1,993)

✶ Notes to the Interim Report continued

6 Reserves

	Share Premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
Reserves at 1 April 2005	**39,693**	(24,103)	31,001
Unrealised gain on investments	–	5,268	–
Own shares purchased for treasury in the period	–	–	(504)
Foreign currency translation	–	–	(16)
Profit for the period	–	–	107
Reserves at 30 September 2005	**39,693**	(18,835)	30,588

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