SPARK Ventures

Interim Report 2007

venture capital investors

about **SPARK Ventures plc**

SPARK Ventures is the leading quoted early-stage venture capital company in Europe managing £225 million on behalf of major institutional investors, leading UK universities, and three quoted venture capital trusts.

SPARK invests in entrepreneurs to create dynamic businesses in the technology, media, telecoms and healthcare & life sciences sectors. As well as capital, it brings a wealth of experience of developing high growth companies from early stage through to IPO or trade sale, adding value to its investments through active support and strategic direction.

SPARK's focus is on building great companies from small beginnings: its experience blends ambition with the strategic, financial and commercial skills that enable it to maximise returns, both for investors and for portfolio companies.

Some of our exits include Mergermarket, Lastminute.com, Footfall, Pricerunner, Elata, Glycart, OHM and Avidex.

Overview

Business review

Accounts

key **highlights**

- Integration of the Quester team with SPARK increases numbers of full time staff to 21 (from 6) and brings total funds managed by the Group up to £225m including three VCT's, a Limited Partnership and three University seed funds (including Oxford Colleges).
- Revenues from management of third party funds of £1.7m in the period, when combined with other income, cover costs of investing activities for the first time.
- Portfolio companies consolidated in SPARK accounts return unaudited pre-tax losses for the six months to September 2007 of £1.6m.
- Decline in Net Asset Value of 13.0% to 15.5p reflects the write down of goodwill of two recently consolidated portfolio companies (Aspex and DX3) by £9.2m, due to delays in gaining commercial traction.
- Other substantial portfolio companies developing well but without specific valuation events taking place in the period.
- New investments (£7.3m), the net initial purchase price of Quester (£3m) and the cost of operations for consolidated portfolio companies take cash balances (excluding restricted cash of £2.9m) to £18m (March `07; £32m).

chief executive's review

Andrew Carruthers
Chief Executive Officer

"We remain convinced that there is scope for substantial uplift in values from the current portfolio, as we have demonstrated repeatedly since 2004."

Overview

The six month period to September 2007 has been characterised in operational terms by the acquisition of Quester and the integration of new investments made in the first half of the year. In valuation terms, the period has suffered from a substantial unrealised impairment of goodwill, associated principally with Aspex Semiconductors. The write downs taken in the period have been disappointing, even if, in part, they are a consequence of our policy to take an early view of bad news (despite being unrealised). We only reflect positive developments when actually realised, therefore progress elsewhere within the portfolio has not generated third party valuation uplifts to offset the impairment in the current period.

Integration of the fund management activities of Quester

Following the acquisition of Quester in May, for the first time, the Group received fund management revenues amounting to £1.7m over four and half months. The fund management revenues relate to the management of three Venture Capital Trusts, a Limited Partnership fund and three University funds. Together with the SPARK portfolio, this increases the total funds managed to over £225m, with the number of investments up from 25 to 82, of which 16 are in life sciences and the balance in technology, digital media and telecoms. The total team has increased from six full time employees to 21, excluding three non-executive directors. Given the magnitude of this change, the integration has gone smoothly. However, a substantial review of the Quester portfolios to identify and concentrate resources, when combined with a weakening market for the financing of small companies generally, has led to a decline in the asset value of those funds, by 15%. Despite this, during the period, our new Life Science team were able to close one of the largest capital raisings ($40m) in the world this year in their sector for Oxford Immunotec.

Deal flow

The enlarged SPARK team and portfolio now gives the Group excellent visibility on deal flow, trends and transactions in the UK venture community and we believe that this will provide much improved investment prospects going forward. These benefits of wider experience and deal flow will be applied across both the assets on the SPARK balance sheet as well as those belonging to managed funds.

Analysis of financial performance

In the six months to September 2007 the Group made a profit from its investing activities of £0.8m including a £0.4m profit arising from the consolidation of Quester's fund management revenue and costs. Combining this £0.8m profit with a £1.6m loss from the consolidated trading subsidiaries (Aspex and DX3) and a £9.4m loss arising from the impairment of goodwill (£9.2m) and amortisation of intangible assets (£0.2m) explains the loss before taxation in the period of £10.2m.

Of the goodwill impairment of £9.2m in the Group Income Statement during the period, £8.2m is attributable to Aspex Semiconductors (Aspex) and £1m to DX3. As mentioned in previous statements, Aspex has been seeking to sell chips and designs for high speed image encoding and transcoding, initially to the professional broadcasting market and latterly, to the manufacturers of consumer devices. At our last reporting date, Aspex was in very advanced contract negotiations with a major semiconductor company for a consumer application based on their designs that would have provided a significant validation of their technology as well as substantial revenues. They were also in early discussions with two other major semiconductor companies for different consumer applications of their designs and chips. Since the summer, the first major contract was delayed at final signing stage, with no fixed date given for restarting the project. Both of the other two potential contracts have developed positively. Whilst these latter contracts are potentially more valuable than the first, SPARK has taken the view that a worsening economic climate since the summer, combined with the experience of the late deferral of what was considered a 'done deal' by all parties at the time, is reflective of a substantially more uncertain situation for Aspex.

Progress in other principal investments

SPARK Ventures' other major investments continue to develop positively. IMI mobile has seen growth throughout the year winning contracts from European customers and mobile operators in Africa. The company has strengthened its operational model by developing a technology support management system and achieving certification for ISO 27001, a global information security management standard. Both of these developments have strengthened IMI's managed service proposition. It was also recently recognised as one of the Top 50 fastest growing technology companies in India by Deloitte.

Kobalt Music's revenues have grown over the last three years by an average of 100% a year. According to published Charts data it became the top independent publisher in the UK in the second quarter of 2007, and in the US in the third quarter of 2007. In the current quarter it has also experienced significant growth in UK market share. The company has signed several major clients such as Moby and Eminem's writers and is experiencing renewals close to 100% from existing clients such as Gwen Stefani, Nine Inch Nails and The Hives, amongst others, reflecting the business' added value in a fast changing music market.

Skinkers continues to establish itself as the leader in Information Broadcast technology winning new clients such as UPS, American Airlines and JC Penney. The company closed a $16m Series B round of financing with participation from SPARK, Quester managed funds and Acacia Capital Partners. The funds will be used to grow the enterprise division as well as launch Livestation, a global broadcast platform for the Internet. Livestation will deliver a range of live radio and television channels to a computer over a broadband network and has signed up a number of broadcasters for its trial service.

Unanimis is growing strongly in line with the growth of the internet advertising market and it has maintained its position as one of the UK's leading internet ad networks.

MyDeco, the revolutionary new online home design and furniture shopping business created by the founders of lastminute.com, for which SPARK led a £5.5m funding round earlier in the year is expecting to launch early in 2008.

Complinet is now used by over 100,000 compliance professionals and continues to benefit from the additional compliance and regulatory pressures facing the financial services industry.

DEM Solutions, the developer of Computer Aided Engineering tools for the modelling of industrial processes has completed its first half year following SPARK `s investment. In that time it has grown its customer base from 48 to 81, adding names such as Procter & Gamble, PepsiCo, Siemens and Pfizer, as well as winning substantial repeat business from NASA.

MarketClusters launched the StrategyEye intelligence platform which is now used by a number of media, internet and advisory companies to track changes in the digital media sector. The company has developed an ingestion, filtering and contextualisation platform that will now be applied to other sectors.

GamblingCompliance launched its service in March and now has over 100 clients for its subscription service and has within a year of formation established itself as an authoritative source in the industry.

The rapid growth in ecommerce in the UK is driving good performances for our investments in online retailers. Not on the high street (www.notonthehighstreet.com), in which we made an investment earlier this year, has benefited from good press exposure and has seen dramatic growth in sales with a sevenfold increase over the prior year. Similarly, Firebox (www.firebox.com) is expecting good growth from revenues of £9.8 million for 2006, particularly as it builds on its entry into the US market.

Conclusion

The six month period to September 2007 has marked a substantial shift in the scale and characteristics of the company. The management of substantial third party funds and trebling in size of the team and portfolio through the acquisition of Quester was the first step toward addressing the volatility of SPARK's previous focus on a small number of high risk venture capital investments.

We remain convinced that there is scope for substantial uplift in values from the current portfolio, as we have demonstrated repeatedly since 2004. Nevertheless, the combination of direct investment alongside the management of third party funds, with their associated revenue streams and co-investment possibilities, is designed to deliver more steady growth of net assets.

Andrew Carruthers
Chief Executive Officer
19 December 2007

independent review report

to SPARK Ventures plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 4. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the Group intends to use in preparing its next annual financial statements.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

Deloitte & Touche LLP
Chartered Accountants
London, UK
19 December 2007

group income statement (condensed)

six months to 30 September 2007

	Six months ended 30 Sep 2007 £'000 Unaudited	Six months ended 30 Sep 2006 £'000 Unaudited	Year ended 31 Mar 2007 £'000 Audited
Gains on investments at fair value through profit and loss			
– Realised gains and losses	**66**	(16)	2,047
– Realised carried interest valuation	**–**	2,668	4,800
– Unrealised gains and losses	**855**	963	2,537
	921	3,615	9,384
Revenue			
Bank interest receivable	**709**	412	1,331
Fund management revenue	**1,702**	–	–
Portfolio dividends and interest	**40**	145	292
Sales of goods and related services	**479**	458	881
Other income	**771**	773	1,426
	3,701	1,788	3,930
Administrative expenses			
Salaries and other staff costs	**(2,802)**	(2,214)	(3,990)
Carried interest expense	**–**	(2,376)	(4,800)
Depreciation and amortisation	**(434)**	(100)	(196)
Goodwill impairment	**(9,178)**	–	–
Other costs	**(2,456)**	(2,569)	(5,257)
	(14,870)	(7,259)	(14,243)
Loss before taxation	**(10,248)**	(1,856)	(929)
Taxation	**668**	295	714
Loss for the financial period	**(9,580)**	(1,561)	(215)

group balance sheet (condensed)

at 30 September 2007

	30 Sep 2007 £'000 Unaudited	30 Sep 2006 £'000 Unaudited	31 Mar 2007 £'000 Audited
Non-current assets			
Property, plant and equipment	**653**	725	647
Investments at fair value through profit and loss	**33,791**	19,464	25,453
Deferred consideration	**250**	1,499	1,498
Intangible assets: Fund management contracts	**4,965**	–	–
Goodwill	**4,000**	13,178	13,178
	43,659	34,866	40,776
Current assets			
Deferred consideration	**2,390**	2,367	2,147
Inventory	**88**	104	89
Trade and other receivables	**2,279**	1,134	1,358
Taxation	**–**	–	422
Restricted cash	**2,869**	2,869	2,869
Cash and cash equivalents	**18,121**	36,659	31,846
	25,747	43,133	38,731
Total assets	**69,406**	77,999	79,507
Current liabilities			
Trade and other payables	**(5,302)**	(2,860)	(2,137)
Deferred consideration	**(500)**	–	–
Carried interest payable	**–**	(2,369)	(4,800)
Provisions	**(133)**	(133)	(133)
	(5,935)	(5,362)	(7,070)
Net current assets	**19,812**	37,771	31,661
Non-current liabilities:			
Deferred consideration	**(500)**	–	–
Total liabilities	**6,435**	5,362	7,070
Net assets	**62,971**	72,637	72,437

group balance sheet – continued
at 30 September 2007

	30 Sep 2007 £'000 Unaudited	30 Sep 2006 £'000 Unaudited	31 Mar 2007 £'000 Audited
Equity			
Issued capital	**11,818**	11,818	11,818
Share premium	**39,693**	39,693	39,693
Revenue reserve	**11,635**	21,301	21,101
Own shares	**(175)**	(175)	(175)
Total equity	**62,971**	72,637	72,437

	Number '000	Number '000	Number '000
Total Equity			
Ordinary shares in issue	**472,736**	472,736	472,736
Shares held in Treasury	**(58,391)**	(46,741)	(58,391)
Shares held by Employee Benefit Trust	**(7,023)**	(7,023)	(7,023)
Shares in issue for net asset value per share calculation	**407,322**	418,972	407,322
NAV per share (pence)	**15.46**	17.34	17.78

reconciliation of movements in equity (condensed)

	Six months ended 30 Sep 2007 £'000 Unaudited	Six months ended 30 Sep 2006 £'000 Unaudited	Year ended 31 Mar 2007 £'000 Audited
Opening total equity	**72,437**	75,680	75,680
Loss for the financial period	**(9,580)**	(1,561)	(215)
Share based payments	**114**	230	428
Share buy-backs	**–**	(1,712)	(3,456)
Closing total equity	**62,971**	72,637	72,437

group cash flow statement (condensed)

six months ended 30 September 2007

	Six months ended 30 Sep 2007 £'000 Unaudited	Six months ended 30 Sep 2006 £'000 Unaudited	Year ended 31 Mar 2007 £'000 Audited
Cash flows from operating activities			
Cash flow from operations	**(3,978)**	(3,418)	(6,469)
Tax received	**423**	570	570
Net cash outflow from operating activities	**(3,555)**	(2,848)	(5,899)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(102)**	(42)	(61)
Acquisition of subsidiary	**(2,994)**	–	–
Purchase of financial investments	**(7,343)**	(498)	(4,143)
Sale of financial investments	**269**	26,749	30,395
Net cash (outflow)/inflow from investing activities	**(10,170)**	26,209	26,191
Cash flows from financing activities			
Purchase of own shares	**–**	(1,712)	(3,456)
	–	(1,712)	(3,456)
Change in cash and cash equivalents	**(13,725)**	21,649	16,836
Opening cash and cash equivalents	**31,846**	15,010	15,010
Closing cash and cash equivalents	**18,121**	36,659	31,846

reconciliation of operating loss to net cash outflow from operations

	Six months ended 30 Sep 2007 £'000 Unaudited	Six months ended 30 Sep 2006 £'000 Unaudited	Year ended 31 Mar 2007 £'000 Audited
Revenue	**3,701**	1,788	3,930
Administrative expenses	**(14,870)**	(7,259)	(14,243)
Operating loss	**(11,169)**	(5,471)	(10,313)
Decrease/(increase) in trade and other receivables	**1,039**	(98)	(276)
(Decrease)/increase in trade and other payables	**(3,574)**	1,862	3,522
Increase in inventory	**–**	(41)	(26)
Depreciation and amortisation	**434**	100	196
Goodwill impairment	**9,178**	–	–
Non-cash expenditure	**–**	33	33
Share based payment	**114**	197	395
Net cash flow from operations	**(3,978)**	(3,418)	(6,469)

notes to the interim report

to 30 September 2007

1 General information

The information for the year ended 31 March 2007 does not constitute statutory accounts as defined in Section 240 of the United Kingdom Companies Act 1985. Comparative figures for 31 March 2007 are taken from the full accounts, which have been delivered to the Registrar of Companies and contain an unqualified audit report. The information provided for the six months ended 30 September 2006 has been restated following the adoption of IFRS for the first time in the results for the year to 31 March 2007. The most significant change has been the resulting requirement to consolidate two subsidiaries, Aspex and DX3, which were previously treated as fixed asset investments in the interim report for the six months ended 30 September 2006. The Group has not adopted IAS 34: 'Interim Financial Reporting' as the AIM rules do not require this.

2 Basis of accounting

The Group financial statements are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. This statement has been prepared using accounting policies and presentation consistent with those applied in the preparation of the accounts for the Group for the year ended 31 March 2007.

3 Intangible assets – management contracts

The cost of the rights to manage assets is capitalised as an intangible asset. Where the management contracts do not have a defined life, an estimate of the useful life is made and the costs are amortised on a straight line basis over their useful lives. The useful lives of the management contracts have been estimated to be seven years.

Where the management contracts have a defined useful life, the cost is amortised over the period of the contract. The amortised cost of these management contracts is reviewed annually to ensure no impairment has occurred. Any amortisation or impairment is charged in the income statement as an expense.

4 Acquisition of Quester group

On 11 May 2007, SPARK bought the entire issued share capital of Querist Ltd – the parent company of the Quester group of companies. Quester is a venture capital fund manager managing approximately £160m of 3rd party funds consisting of three Venture Capital Trusts, three university funds and a Limited Partnership. In accordance with our stated accounting policy, the consolidated results for Querist Ltd for the period from 11 May 2007 until 30 September 2007 have been included within the consolidated results of the SPARK group using the acquisition method of accounting. Consequently the period from 11 May to 30 September 2007 brings in fund management income into the Group Income Statement for the first time of £1.7m and a contribution towards group overheads of £0.4m.

The total purchase price paid by SPARK is expected to be £5.6m, including £1m of deferred consideration payable in two instalments of £0.5m on 11 May 2008 and 11 May 2009 subject to earnings targets being met. The net assets of the business at the point of acquisition were £0.3m. The difference between the price paid and the fair value of the net assets acquired of £5.3m is represented by the value of the fund management contracts which have been included on the consolidated balance sheet as an intangible asset.

Officers & Professional Advisers

Directors
A.D.N. Betton
C.R. Berry
A.B. Carruthers
J.R. Patel
D.R.W. Potter
T.A. Teichman
M.K. Whitaker

Secretary
A.D.N. Betton

Registered Office
Lacon House
Theobald's Road
London WC1X 8RW

Bankers
The Royal Bank of Scotland plc
Abbey Gardens
4 Abbey Street
Reading
Berkshire RG1 3BA

Solicitors
Nabarro
Lacon House
Theobald's Road
London WC1X 8RW

Auditors
Deloitte & Touche LLP
London

Registrars
Capita Registrars
Northern House
Fenay Bridge
Woodsome Park
Huddersfield
West Yorkshire HD8 0LA

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

www.sparkventures.com

SPARK Ventures plc
33 Glasshouse Street
London W1B 5DG

Tel +44 (0)20 7851 7777
Fax +44 (0)20 7851 7770
Reg. 3813450