

3 August 2009

SPARK Ventures plc
("SPARK" or the "Company")



Statement re: Change in Investment Strategy

Further to the Company's Circular dated 21 July 2009, SPARK has become aware that Vine Street Capital Limited, a shareholder with common ownership with Matrix Group, has posted a letter to Shareholders in relation to the Resolutions proposed at the Company's General Meeting on 7 August 2009. In response to this letter, the Company will today post the following letter to Shareholders reiterating the Non-Executive Directors' continued recommendation that Shareholders vote in favour of all Resolutions at the General Meeting:

Dear Shareholder

Proposed Management Buyout of Fund Management Business

Introduction

You will recall that I wrote to you on 21 July 2009 regarding a number of proposals to be put to Shareholders for approval at a general meeting convened for 7 August 2009. The circular ("Shareholder Circular") included my letter and a notice of that meeting and the terms defined in it have the same meaning when used in this letter.

In the Shareholder Circular, I described:

- a change to the Company's investing strategy;
- a return of cash to Shareholders; and
- a buyout of the Company's fund management business, including management of the Existing Investments (the "Management Buyout").

On Friday 31 July 2009, we were informed that Shareholders had been sent a letter from Vine Street Capital Limited ("Vine Street"), a company with shared ownership with the Matrix Group. Vine Street is a relatively recent shareholder in the Company and, according to the information available to the Directors, holds approximately 8.2 per cent. of the Company's issued share capital. In its letter, Vine Street recommends Shareholders to vote against certain of the resolutions to be proposed at the General Meeting convened for 7 August 2009 which relate to the Management Buyout.

Vine Street's letter indicates that Vine Street wishes the Company to pursue a fresh process to find a buyer for the Company's investment management business, Querist and bids for the management of the Company's Existing Investments.

The Independent Non-Executive Directors have also received a competing proposal to the Management Buyout (the "Alternative Proposal") since posting the Shareholder Circular.

Over the past few months as part of a strategic review, the Independent Non-Executive Directors have, supported by a team of professional advisers, assessed the performance of the current managers, carefully considered a range of alternatives, and have also negotiated hard on Shareholders' behalf to achieve, what we believe is an acceptable deal. The Independent Non-Executive Directors believe that the current executives are best placed to deliver the best value for Shareholders and have had this view backed up by an independent report, which rates their performance as "highly creditable for a venture capital investor", and considers that "Spark's investment track record since 2003 compares favourably against venture capital benchmarks". In

addition, the Independent Non-Executive Directors, having been advised by the Company's nominated adviser, Collins Stewart, believe that the Related Party Transactions, required to give effect to the Management Buyout are fair and reasonable insofar as Shareholders are concerned. In giving its advice, Collins Stewart has taken into account the Board's commercial assessments of the Proposals and the Related Party Transactions.

The Independent Non-Executive Directors have carefully considered Vine Street's letter but remain of the opinion that the Related Party Transactions required to give effect to the Management Buyout to be fair and reasonable insofar as Shareholders are concerned and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Independent Non-Executive Directors continue to recommend that Shareholders vote in favour of all Resolutions at the General Meeting.

The letter from Vine Street does not seek to alter the recommendations of the Directors that Shareholders vote in favour of Resolutions 1 and 2 at the General Meeting and Vine Street has indicated that it will vote in favour of those resolutions.

The purpose of this letter is to explain why the Independent Non-Executive Directors have come to their conclusion with regard to Vine Street's letter in respect of the Related Party Transactions required to give effect to the Management Buyout.

Background to the Management Buyout

The proposed upfront consideration of the Management Buyout of £1 million cannot be viewed in isolation, as the Independent Non-Executive Directors believe that the benefit to the Company in the first two years in terms of initial consideration and the management fee sharing arrangements to be approximately £2million.

The proposed change in the Company's investing strategy will move the management of the Existing Investments to a process of managed realisation. The Independent Non-Executive Directors believe that it is important to ensure that the people entrusted to manage the Company's assets have strong relationships with our partners and the management teams in our Existing Investments and that these people have appropriate and suitable incentives to both maximise the return on the Company's investments and remain throughout the full process.

The Independent Non-Executive Directors, as part of their evaluation of the Management Buyout, considered whether introducing a new management team at this stage would, in their opinion, maximise value for Shareholders. While it is hard to be definitive, the opinion of the Independent Non-Executive Directors is that it would be extremely difficult for a new team, with no prior relationship with the Existing Investments, their respective management teams or our partners, to develop the relationships which we believe will ultimately deliver the best value for Shareholders.

Given the proposed change in investment strategy, a new management team would be introduced to the Existing Investments against the backdrop of a mandate which is solely to exit from those investments. Vine Street states in its letter that "any experienced venture capital investment professional can support and monitor an exit of a private company". Vine Street fails to give any acknowledgement of the importance, particularly with venture capital investment in early stage companies such as the Existing Investments, of the relationship between investment professional and the investee company management. The Independent Non-Executive Directors believe that these aspects will be very important to maximise the value from the Existing Investments, and have therefore reached the conclusion that the Company and Shareholders would be best served by finding a structure which could use the existing relationships built up over many years by the Company's current executives and employees during what will likely be a difficult phase and keep.

In evaluating the Management Buyout, the Independent Non-Executive Directors considered whether the structure would deliver continuity of the personnel managing the Existing Investments for the

Company and the Company's ultimate exit from them whilst providing sufficient incentive for those personnel to remain involved and also freeing them to pursue other opportunities. The Independent Non-Executive Directors believe that there is a risk of the Company's executives and employees leaving the Company during its realisation phase as, ultimately, when that realisation is complete, there would be no role for them.

The Independent Non-Executive Directors continue to hold their views which led them to conclude that the Management Buyout and the Related Party Transactions are fair and reasonable insofar as Shareholders are concerned and in the best interests of the Company and Shareholders as a whole.

The Alternative Proposal

An indicative proposal has recently been received by the Independent Non-Executive Directors following the posting of the Shareholder Circular which proposes that a new investment manager is brought in by the Company to manage the exit from the Existing Investments on a structure which is similar in a number of ways to the Management Buyout.

The Alternative Proposal was stated to be indicative and the Independent Non-Executive Directors consider that it would take an extended period of time to clarify and negotiate fully. Whilst it contains certain details regarding the potential terms of an alternative transaction, it is lacking in detail on a number of points which the Independent Non-Executive Directors consider essential in order to compare the Alternative Proposal with the Management Buyout, including how certain liabilities which would arise if the Alternative Proposal were to be implemented would be addressed. Although the Independent Non-Executive Directors' requests for further clarification have been acknowledged to be reasonable requests in writing and in personal meetings, the party making the Alternative Proposal has declined to provide that detail or to indicate when it would be in a position to do so.

The Views of the Independent Non-Executive Directors

The Independent Non-Executive Directors have carefully considered the Alternative Proposal and met with the party making the proposal. In reaching their conclusion on the Alternative Proposal, the Independent Non-Executive Directors have taken into account that:

- a. the Management Buyout represents a transaction which is in an agreed form and can be completed in short order following the Related Party Transactions being approved at a meeting of Shareholders;
- b. the Alternative Proposal lacks clarity in a number of important areas which would directly affect the potential returns to Shareholders, including to what extent existing executives would be part of the team;
- c. there was no indication of the ability to complete the Alternative Proposal, which remained subject to such matters as due diligence, nor of the timeframe within which the Alternative Proposal could be implemented;
- d. the Company, Shareholders and the management at the Existing Investments have already endured a period during which the future strategy has been under review, leading to uncertainty;
- e. the favoured future strategy for the Company is to realise its Existing Investments, a strategy with which the Company's major shareholders, including Vine Street, has advised the Independent Non-Executive Directors they agree;
- f. continuing uncertainty risks damaging the Company's relationships with its Existing Investments; and
- g. there is no guarantee as to how long the team behind the Management Buyout will be prepared to complete that transaction.

After due and careful consideration, the Independent Non-Executive Directors do not consider that the Alternative Proposal is in the interests of the Company or its Shareholders or that it is in the interests of the Company and Shareholders to continue the uncertainty surrounding the Company's future by adjourning the General Meeting and pursuing that proposal.

Vine Street's Letter and the Independent Non-Executive Directors' Responses

In summary, Vine Street agrees with the Company's overall strategy but believes that the Board should consider alternatives to the Management Buyout which the Independent Non-Executive Directors have recommended to you. Vine Street does not agree that the existing executive management team is the best placed to realise the Company's investments, and believes that a new team might be beneficial.

We would like to reassure you that the Independent Non-Executive Directors, supported by a team of professional advisers, have assessed the performance of the current managers, carefully considered a range of alternatives, and have also negotiated hard on Shareholders' behalf to achieve, what we believe is an acceptable deal.

Process

As outlined above, we believe that it is vitally important to ensure that the people entrusted to manage the Company's assets are competent and have strong relationships with our partners and management teams in our Existing Investments during a process of managed realisation. It will also be important to ensure that those people are appropriately and suitably incentivised to both maximise the return on the Company's investments but also to remain with the Company throughout the process.

In our opinion, it would be extremely difficult for a new team to develop the relationships which we believe will ultimately deliver maximum value to Shareholders. The Independent Non-Executive Directors therefore reached the conclusion that the Company and Shareholders would be best served by finding a structure which could use the existing relationships and the Independent Non-Executive Directors believe that there is a high likelihood of the Company's executives and employees leaving the Company during its realisation phase.

It is our judgement that the existing team have strong personal relationships with the key company managers in the portfolio which are of substantial value. While we believe that "any experienced venture capital investment professional" could carry out the task, there is a strong likelihood that less value will be realised on any eventual sale. We believe that the Existing Investments are in specialised sectors, with the largest one being based in India and that, in order to maximise the value of the investment portfolio, it is essential that any new manager possess the required specialist skills and relationships.

For the above reasons, the Independent Non-Executive Directors do not believe that engaging a new investment manager would be in the interests of the Company or Shareholders as a whole or that it would result in the Company maximising its returns on the Existing Investments.

We also note that in its letter, Vine Street itself expresses an interest in the management of the Company's assets.

Consideration

Vine Street states in its letter that it regards the Management Buyout as being at an undervalue, but without giving any indication as to what value it considers might otherwise be achieved.

In assessing the Management Buyout, the Independent Non-Executive Directors, as well as taking into account the immediate cash receivable by the Company, took into account the expected

management fee sharing structure and ancillary services being provided to the Company and the costs of such provision. In addition, the benefits of terminating the existing incentive arrangements with the current management team have to be considered.

In evaluating the Management Buyout, we also had to ensure that the transaction did not unduly favour those behind the Management Buyout to the detriment of Shareholders. As well as considering whether the structure would deliver the continuity of personnel and provide sufficient incentive to maximise returns to Shareholders, we also had regard to the amounts to be paid to the Company and the investment management costs to the Company following Completion.

Based on our considerations of the value of the Querist business, professional advice received, and likely consideration which could be achieved in the open market, the Independent Non-Executive Directors believe that the terms of the Management Buyout, when taken as a whole, are fair and reasonable insofar as Shareholders are concerned and in the best interests of the Company. Nothing contained in the Alternative Proposal alters the views of the Independent Non-Executive Directors and, if anything, we believe that the Alternative Proposal supports our conclusions.

Independence of the Independent Non-Executive Directors

In their letter, Vine Street questions the independence of the non-executive members of the Board. We note that the constitution of the Board has remained substantially unchanged for several years, including since before Vine Street acquired its interest in the Company and that, despite having had the opportunity to pass comment on the issues raised in their letter, Vine Street has only now chosen to raise this subject.

As non-executive directors, we regard our duty of care to shareholders as being of paramount importance. Vine Street suggests in its letter that due to the holding of shares in the Company or entitlements to performance related remuneration via options, our independence in respect of the Management Buyout is compromised. Given that none of the Independent Non-Executive Directors is involved in the Management Buyout, our sole interest lies as directors of the Company on the one hand and as Shareholders on the other. In this regard, we do not believe that our interests could be any more aligned with Shareholders generally and utterly refute the offensive allegations of a lack of independence on our part in considering and negotiating the Management Buyout.

Consultation

Vine Street refers in its letter to Shareholders to the fact that the Company did not consult with Vine Street on the Management Buyout. Vine Street has been in contact with the Board since both before and after they made its initial investment in the Company and has proposed a number of alternative strategies to the Company during that period.

Conclusion

For the reasons outlined above, we do not believe that the proposals put forward in the Vine Street Letter are in the interests of Shareholders or the Company as a whole as they risk destabilising the Company and its relationships with its management team and Existing Investments without offering any demonstrable reward for the Company or its Shareholders.

The Company currently has an agreed deal which can be completed shortly following the General Meeting should Shareholders approve it which the Independent Non-Executive Directors consider:

- to be fair and reasonable insofar as Shareholders are concerned;
- to be in the best interests of the Company and Shareholders as a whole;
- to deliver an appropriate balance between retaining for the Company the benefit of the relationships and expertise of the existing management during the realisation of the Company's investments and delivering value to Shareholders; and
- allows the Company, its Shareholders and partners to move forward to a more certain future, rather than continuing what has already been a destabilising and unsettling period.

There is no guarantee that the existing management of the Company will continue to be prepared to continue pursuing the Management Buyout if it is not supported by Shareholders at the General Meeting.

Taking into account all of the foregoing, the Independent Non-Executive Directors therefore consider the Related Party Transactions required to give effect to the Management Buyout to be fair and reasonable insofar as Shareholders are concerned and to be in the best interests of the Company and Shareholders as a whole. Accordingly, the Independent Non-Executive Directors continue to unanimously recommend that Shareholders vote in favour of all Resolutions at the General Meeting.

Yours faithfully

David Potter

Independent Non-Executive Director

A copy of the above letter is now available from the Company's website at <http://www.sparkventures.com>.

For further information, please contact:

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Capitalised terms used in this announcement have the meaning given to them in the Company's announcement of 20 July 2009 entitled "Change in investment strategy".