SPARK Ventures

Venture Capital Investors

Half Year Report 2008

SPARK Ventures is the leading quoted early-stage venture capital company in Europe.

About SPARK Ventures

SPARK Ventures is the leading quoted early-stage venture capital investor in Europe, providing equity investment to high growth technology, media and healthcare companies in the UK and Europe. SPARK Ventures manages approximately £215m across several investment vehicles including: two Venture Capital Trusts (VCTs); University Funds on behalf of leading UK universities including Oxford; and a Limited Partnership on behalf of major institutional investors.

SPARK Ventures plc also invests capital from its own balance sheet.

The SPARK Ventures team has been investing in early-stage businesses for 12 years and has a wealth of expertise in backing and developing companies from start-up through to eventual trade sale or IPO. SPARK's core expertise lies in identifying promising early-stage businesses and leading their funding right from the earliest stages.

The team is one of the most experienced in the early-stage investment space. It brings its portfolio businesses the necessary capital, combined with strategic and operational management support as well as commercial and marketing expertise to help them succeed.

www.sparkventures.com

Highlights – Business and Financial

- Investing activities generate profits of £0.3m from revaluations set by third party events (Sep 07: £8.3m loss), despite currency provisions and write-downs elsewhere in the portfolio.
- Cash increases by 6.6% to £18.3m, of which £2.9m is restricted, driven by asset sales (March 08: £17.2m).
- Net assets steady at 15.4p per share (March 08: 15.5p).
- The largest direct investments, IMI and Kobalt, deliver strong growth.
- Fund management contracts and interest income makes the operating business profitable at £0.4m (Sep 2007: £0.4m loss) when consolidated portfolio results are excluded.
- Aspex Semiconductor, written off in full six months ago, successfully closes a long-term contract in December with a leading global technology company, covering its operating costs for the next two years and paving the way for value creation and de-consolidation from SPARK accounts in future.
- DX3 is sold after the period end allowing for the re-instatement of £0.5m in investment value which was previously written off and the de-consolidation from the group accounts from the period end.
- Discussions with strategic investors are progressing.

Chief Executive Officer's Report

Overview

The half year period to September 2008 has been one of the most difficult for technology companies since the dotcom crash. Whilst few of the investments that we manage, either those on our own balance sheet or those in third party portfolios, have ever raised any debt finance, the rapid fall of the wider economy into recession has presented enormous challenges, even if the credit crunch has not. In particular, those companies seeking to raise equity capital or make sales to financial sector clients have had to take rapid steps to adjust to the turmoil in capital markets. Despite this, the investments on the SPARK balance sheet have generally held up well to date. In particular, the largest investments, IMI mobile and Kobalt, continue to deliver strong growth. In addition, cash balances have increased in the period as sale proceeds have come in.

On the fund management activities, leaving aside the losses of consolidated portfolio companies, the business was able to produce profits over the half year to September of £0.4m, after deduction of depreciation and amortization charges of £0.5m (Sep 2007: £0.4m loss). This means that the cost to SPARK shareholders of managing the direct investments on the SPARK balance sheet is virtually zero.

Whilst fund management fees will decline somewhat for as long as the net assets of the third party funds managed are falling, two of the three publicly quoted Venture Capital Trusts (VCTs) have been successfully merged in the period, allowing for operational savings which will somewhat counter this decline. From the beginning of our next financial year, the results of portfolio companies will no longer be consolidated into SPARK's accounts, thereby making the underlying performance of the fund management business clearer.

Direct investments

Major developments

For the direct investments held on the SPARK balance sheet, the fact that many of the companies are now more mature has meant that valuations have thus far been less vulnerable than was the case at the end of the dotcom boom. Indeed, we have even been able to collect cash from the sale of two of our more mature investments despite market turbulence; IMI's engineering division to a major Danish engineering group, Ramboll, (£1.5m) and a stake in Complinet (£0.4m). In addition, as reported in our annual accounts for the year to March 2008, two of the earlier stage investments in the SPARK portfolio which may have been more vulnerable, Notonthehighstreet.com and mydeco, have closed significant funding rounds in the period.

> "The combination of cash strength, a more mature portfolio of direct investments and underlying profitability in the fund management business has largely protected SPARK from the effects of market turbulence to date."

This has not only provided cash at a crucial time, but also allowed us to write up the value of those investments in our books.

In addition, we are delighted to be able to report positive news for Aspex Semiconductors. Having written off the value of goodwill associated with this investment in full after a sale fell through in early September, the company was able to secure a long term contract to develop a new chip for a global technology business. The revenues from the contract will cover all its operating costs for that period, provided that they can meet the timetable and technical performance milestones. Along with this new contract win, SPARK's equity holding in the company will be reduced to 49% so that beyond the end of this financial year, its results will no longer be consolidated. Whilst it is premature to restore any value to this investment, it is clearly a major achievement to win a contract of this nature in current markets, and we are hopeful that this will create value in due course. In the meantime, no further funding should be required from SPARK.

IMI Mobile & DX3

IMI Mobile continues to grow strongly and its first half revenue performance is over 50% up year on year. Whilst historically strong in emerging markets, during this reporting period, the business was also able to firmly establish a European footprint with two initiatives. One was migrating certain contracts from a large European telecom infrastructure vendor, and the other was acquiring DX3 – the other investment previously consolidated into our accounts.

Between them, these developments provide IMI Mobile with clients across the UK, Germany and Russia. The acquisition has allowed us to re-instate £0.5m of value as a current asset held for sale.

In spite of IMI's substantial progress, the volatility of currencies during the reporting period meant that our exposure to the Indian rupee generated a negative exchange adjustment of £0.9m to the value of this asset. In practice, 'marking to market' of this currency position has added volatility to the reporting of investment profits in this period, not least because since September 30th, the exchange rate fluctuations between Sterling and the Indian rupee has swung the other way, which would have produced a positive valuation adjustment of £1m at the time of writing.

Kobalt Music Group

Kobalt, financed at inception by SPARK in 2001 and closely supported ever since, is now the leading independent music publisher in the world. It has performed ahead of budget delivering revenues of $40m over the last twelve months, and in the last six months it has published seven chart hits in the UK top ten, and four in the US. This has given it a chart market share of 4-5% according to trade magazines Billboard and Musicweek, and closes the gap with only the four major publishing houses; EMI, Universal, Sony and Warner Chappell, ranking ahead.

Kobalt raised substantial new investment in February this year to finance a targeted US investment programme and its online portal services.

Chief Executive Officer's Report continued

It has established a presence in Los Angeles, New York and Nashville, hired experienced US music executives to increase its penetration further into the largest music market in the world, and has already started signing new deals with major stars such as Kid Rock and Busta Rhymes. It has already had a good year in 2008 publishing multiple songs and hit singles in albums such as Pink's new album 'Funhouse', Britney Spears' new album 'Circus' and Guns 'n Roses' new album 'Chinese democracy'. This has meant that during 2008 Kobalt songs have appeared in 30 albums of the UK's top 100, along with approximately 15 in the top 100 albums in the US and Germany. Together with a good representation in the new songs release schedule for artists such as Leona Lewis, Katy Perry and Dido, this should drive significantly increased revenue and net publisher share in the coming year.

Kobalt's growth however, is set against the context of turbulent times in the recording industry. CD sales have declined significantly in many markets and growing sales of digital music have not been able to offset this decline. As a result, Kobalt has seen both catalogues and new releases generate less mechanical copyright income across the board. Nevertheless the company's publishing model has achieved significant gains in market share, its renewal rates are at 96% amongst its artists, and it is well positioned in the higher yielding performance and synchronization income for advertising and ring tones – giving it strategic value in the industry.

Skinkers and LiveStation

Nevertheless, some of the direct investments have not been able to avoid the effects of the recession. Skinkers has a substantial sales pipeline from the financial services sector, so the market turmoil and bank restructuring has impacted sales, however, it is expected that many projects will be revived once stability returns. In addition, despite LiveStation making substantial progress in the development of its technology, its financing plans have had to be revisited due to market conditions.

As a result we have decided to reduce the valuation of our holding by £2m. The combination of this write down and the exchange adjustment on our IMI Mobile holding has been to reduce £3.3m of investment gains validated by third party events elsewhere in the portfolio, to a lower net gain of £0.3m.

Developments in other direct investments

Elsewhere in the SPARK portfolio, business performance overall has remained largely on track during the period. However, it is difficult to predict how events of the next six months will affect them. Whilst the retail sector is likely to suffer from a difficult trading environment, ecommerce has held up relatively better than the high street. Nevertheless, Firebox usually relies on the three months either side of Christmas to generate approximately 60% of its annual sales and it is currently too early to determine how much an impact this market will have on their growth compared to prior years. On the other hand, Notonthehighstreet.com, mentioned earlier in the context of its funding round, after a slowing of growth in October, has seen its biggest trading days yet in December and is performing significantly ahead of last year. Similarly, mydeco, whilst still in the early stages of development, has had impressive growth in site traffic and made good progress in converting traffic into sales.

In the case of Unanimis, the digital advertising specialist, the business expects growth in advertising spend to slow compared to previous years, but its profitability and position as one of the leading UK businesses in this sector represents an opportunity to increase market share in 2009. Indeed, with over 60% growth in profitability over prior years we have been able to increase the valuation of our holding by £1m. Similarly, DEM Solutions, the provider of computer aided engineering tools for the design of industrial machinery has performed ahead of budget in the first two quarters of its financial year, accelerating its path to profitability.

The professional publishing investments in Complinet, Market Clusters and Gambling Compliance have seen modest slowing in their markets, but growth continues, and in the case of Gambling Compliance, this growth, coupled with a further round of investment that included third party investors, resulted in a £0.4m valuation increase.

Operations and strategic developments

In addition to the direct investments on the SPARK balance sheet, the fund management team are responsible for managing 48 additional investments held in three university funds, three Venture Capital Trusts (VCT's), and an institutional Limited Partnership fund. As with the SPARK investments, these companies typically have }not been able to rely on debt financing or bank facilities, so have been more affected by the general economic slowdown than by the credit crunch. Unlike the SPARK portfolio, however, they do make investments into Life Science businesses (Drug development, diagnostics, medical equipment etc) and stocks quoted on AIM. The former are more protected from a recession, but the latter have suffered big falls in valuations as investors have shunned small caps.

Revenues from the fund management contracts associated with these funds were £1.9m, an increase over the £1.7m reported in the September 2007 interims, due to the fact that in the current period they were consolidated into group accounts for the full six months. In the case of the VCT's, the decline in their net asset values has actually had the effect of reducing the fund management fees (which are calculated at between 2-2.5% of net asset value), compared to the same period last year. However, the successful merger of SPARK VCT2 and SPARK VCT3 after the period end allows for cost reductions that will to some extent mitigate this decline in revenue going forward.

The fund management revenues, when combined with interest and other income amounted to £3.3m for the period (September 2007: £3.2m), and covered the full administrative costs of the fund management operation of £2.4m (September 2007: £3.2m), depreciation and amortisation costs of £0.5m (September 2007: £0.4m) and generated a trading profit of £0.4m (September 2007: £0.4m loss). The contribution of the consolidated investments, Aspex Semiconductors and DX3, was a net trading loss of £1.3m in the period (September 2007: £1.6m).

Our cash position strengthened by £1.1m due to the collection of deferred consideration for the sale of Mergermarket and the sale of IMI Engineering and a stake in Complinet, offset by the cash consumed by consolidated investments described above.

As mentioned in the notice to our last AGM the company is in the process of restructuring its balance sheet with a view to allowing for the payment of dividend in future.

The discussions with Asian strategic investors have progressed and we expect to report further information early in the New Year.

Summary

The combination of cash strength, a more mature portfolio of direct investments and underlying profitability in the fund management business has largely protected SPARK from the effects of market turbulence to date. In addition, the sale of DX3, contract wins and restructuring of Aspex Semiconductors, both of whose results have been previously consolidated into our own, will remove the need for any further funding from SPARK and, from the end of this financial year, eliminate the confusion this has created around the reporting of our underlying financial performance. Whilst we need to be cautious about the challenges that the next twelve months will present, our lack of dependence on debt financing, should put SPARK in a position of strength to take advantage of opportunities that the current market will provide.

Andrew Carruthers
Chief Executive Officer
18 December 2008

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 2008 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 2. 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 2008 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

Deloitte LLP
Chartered Accountants
London, UK
18 December 2008

Group Income Statement (condensed)

Six months to 30 September 2008

	Six months ended 30 Sep 2008 £ '000 Unaudited	Six months ended 30 Sep 2007 £ '000 Unaudited	Year ended 31 March 2008 £ '000 Audited
Gains on investments at fair value through profit and loss			
– Realised gains and losses	**10**	66	172
– Goodwill impairment	**–**	(9,178)	(13,178)
– Unrealised gains and losses	**334**	855	6,477
	344	(8,257)	(6,529)
Revenue			
Bank interest receivable	**632**	709	1,403
Fund management revenue	**1,875**	1,702	3,423
Portfolio dividends and interest	**–**	40	40
Sales of goods and related services	**571**	479	1,163
Other income	**834**	771	1,998
	3,912	3,701	8,027
Administrative expenses			
Salaries and other staff costs	**(2,524)**	(2,802)	(5,645)
Depreciation and amortisation	**(476)**	(434)	(856)
Other costs	**(1,860)**	(2,456)	(5,379)
	(4,860)	(5,692)	(11,880)
Loss before taxation	**(604)**	(10,248)	(10,382)
Taxation	**47**	668	922
Loss for the financial period	(557)	(9,580)	(9,460)

Group Balance Sheet (condensed)

At 30 September 2008

	30 Sep 2008 £ '000 Unaudited	30 Sep 2007 £ '000 Unaudited	31 March 2008 £ '000 Audited
Non-current assets			
Property, plant and equipment	**543**	653	596
Investments at fair value through profit and loss	**38,968**	33,791	40,580
Deferred consideration	**–**	250	–
Intangible assets: Fund management contracts	**4,208**	4,965	4,586
Restricted cash	**2,869**	2,869	2,869
Goodwill	**–**	4,000	–
	46,588	46,528	48,631
Current assets			
Deferred consideration	**–**	2,390	1,639
Inventory	**40**	88	47
Trade and other receivables	**2,294**	2,279	2,040
Asset held for sale	**450**	–	–
Taxation	**23**	–	288
Cash and cash equivalents	**15,405**	18,121	14,281
	18,212	22,878	18,295
Total assets	**64,800**	69,406	66,926
Current liabilities			
Trade and other payables	**(2,003)**	(5,302)	(3,072)
Deferred consideration	**(500)**	(500)	(500)
Provisions	–	(133)	–
	(2,503)	(5,935)	(3,572)
Net current assets	15,709	16,943	14,723
Non-current liabilities: deferred consideration	**–**	(500)	(500)
Total liabilities	2,503	6,435	4,072
Net assets	62,297	62,971	62,854

Group Balance Sheet (condensed) continued

At 30 September 2008

	30 Sep 2008 £ '000 Unaudited	30 Sep 2007 £ '000 Unaudited	31 March 2008 £ '000 Audited
Equity			
Issued capital	**11,250**	11,818	11,250
Share premium	**39,693**	39,693	39,693
Revenue reserve	**10,961**	11,635	11,518
Capital redemption reserve	**568**	–	568
Own shares	**(175)**	(175)	(175)
Total equity	**62,297**	**62,971**	**62,854**

	Number '000	Number '000	Number '000
Ordinary shares in issue	**450,000**	472,736	450,000
Shares held in Treasury	**(39,245)**	(58,391)	(39,245)
Shares held by Employee Benefit Trust	**(6,273)**	(7,023)	(6,273)
Shares in issue for net asset value per share calculation	**404,482**	407,322	404,482
NAV per share	**15.40p**	15.46p	15.54p

Reconciliation of Movements in Equity (condensed)

	Six months ended 30 Sep 2008 £ '000 Unaudited	Six months ended 30 Sep 2007 £ '000 Unaudited	Year ended 31 March 2008 £ '000 Audited
Opening total equity	**62,854**	72,437	72,437
Loss for the financial period	**(557)**	(9,580)	(9,460)
Share based payments	**–**	114	227
Share buyEurobacks	**–**	–	(350)
Closing total equity	**62,297**	62,971	62,854

Group Cash Flow Statement (condensed)

Six months ended 30 September 2008

	Six months ended 30 Sep 2008 £ '000 Unaudited	Six months ended 30 Sep 2007 £ '000 Unaudited	Year ended 31 March 2008 £ '000 Audited
Cash flows from operating activities			
Cash flow from operations	**(1,589)**	(3,978)	(7,099)
Tax received	**–**	423	402
Net cash outflow from operating activities	**(1,589)**	(3,555)	(6,697)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(43)**	(102)	(141)
Acquisition of subsidiary	**–**	(2,994)	(2,994)
Purchase of financial investments	**(387)**	(7,343)	(9,660)
Sale of financial investments	**3,143**	269	2,277
Net cash inflow/(outflow) from investing activities	**2,713**	(10,170)	(10,518)
Cash flows from financing activities			
Purchase of own shares	**–**	–	(350)
	–	–	(350)
Change in cash and cash equivalents	**1,124**	(13,725)	(17,565)
Opening cash and cash equivalents	**14,281**	31,846	31,846
Closing cash and cash equivalents	**15,405**	**18,121**	**14,281**

Reconciliation of Operating Loss to Net Cash Outflow from Operations

	Six months ended 30 Sep 2008 £ '000 Unaudited	Six months ended 30 Sep 2007 £ '000 Unaudited	Year ended 31 March 2008 £ '000 Audited
Revenue	**3,912**	3,701	8,027
Administrative expenses	**(4,860)**	(5,692)	(11,880)
Operating loss	**(948)**	(1,991)	(3,853)
Decrease/(increase) in trade and other receivables	**368**	1,039	1,692
(Decrease)/increase in trade and other payables	**(1,492)**	(3,574)	(6,064)
Increase in inventory	**7**	–	43
Depreciation and amortisation	**476**	434	856
Share based payment	**–**	114	227
Net cash flow from operations	**(1,589)**	(3,978)	(7,099)

Notes to the Interim Report

Six months ended 30 September 2008

Note 1 – General information

The information for the year ended 31 March 2008 does not constitute statutory accounts as defined in Section 240 of the United Kingdom Companies Act 1985. Comparative figures for 31 March, 2008 are taken from the full accounts, which have been delivered to the Registrar of Companies and contain an unqualified audit report. The Group has not adopted IAS 34: “Interim Financial Reporting” as the AIM rules do not require this.

Note 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 2008.

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