Interim Report
Six months to 30 September

2004

NewMedia SPARK

Business and financial highlights:

- Profit before tax of £1m for the period offset by unrealised losses to leave net asset value per share slightly lower at 11.4p (March 2004: 11.5p).
- Cash balances up to £17.8m (March 2004: £10.9m) after funding investments and overheads.
- A further £6.1m received in November from the sale of Spuetz stock and tax reimbursements.
- First major sale of a start-up investment, Pricerunner, for cash at well above book value.
- Capital reconstruction now approved, paving the way for share buy-backs.
- Sufficient cash reserves to continue backing successful portfolio companies and support a limited number of new investments.
- Headcount reduced to five full time employees.
- Over 90% of office space now sublet.

Overview

SPARK's net asset value at 30 September 2004 was 11.4p per share, largely unchanged from the financial year end in March 2004 (11.5p). Cash balances have increased over the period from £10.9m to £17.8m due to exits achieved from investments. This is after funding the administrative costs, investment commitments to Aspex of £3.9m and some modest new investments amounting to £750k. Subsequent to 30 September, another £6.1m has been received from further asset sales and tax reclaims. Realised gains have been responsible for SPARK's profit before tax of £1m for the period, even though smaller unrealised losses on investments, when combined with overheads for the period, kept net assets slightly down. At the AGM in September, the shareholders approved a resolution to reconstruct the balance sheet, eliminating accumulated losses and creating distributable reserves. In October these steps were approved by the court, paving the way for share buy-backs. As a condition of the approval, after the period end, the Court required cash of £2.4m to be put into a blocked reserve account for the protection of creditors. The authority allows the Company to buy-back a maximum of 10% of share capital (or, if lower, £5m worth of share purchases) and will be effective after the announcement of these interim results.

COMMENTARY

SPARK now represents a lean, focussed organisation with a strong balance sheet, a maturing portfolio of strategically placed investments, and a good quality deal flow.

Andrew Carruthers
Chief Executive Officer

Asset sales

These headlines mark a turning point for several key components of SPARK's business. Most notably, we have received cash in from the first major sale of one of our start-up investments in August. The sale of Pricerunner to Valueclick for between US$30m and US$36m (depending on the outcome of an earn-out) represented a substantial uplift to the valuation of the investment previously reported in these accounts. SPARK's 40.6% stake in this business had risen from a £1.5m book value in September 2003, to £3.5m in March 2004 with an eventual anticipated value (after estimating the likely earn-out and releases of cash held in escrow) of £6.5m by August 2005. In US dollar terms, Pricerunner had received total funding (from all investors, including SPARK) of $8.7m since its inception in July 1999. Its sale for up to $36m five years later illustrates several features of early stage investing that we have sought to reflect in these statements over the years. Namely, that under normal circumstances, investing into early stage companies can take five years or more before the successful companies have developed sufficiently to deliver value. Secondly, it demonstrates that it is very difficult to value these companies during their development, and that the valuation policies adopted by SPARK tend to value investments prudently.

Another major feature of these results is the re-balancing of our participation in Spuetz AG, so that it is now a more appropriately sized investment in our portfolio. The first step of this process occurred just before the March 2004 year end when we reduced our stake from 68% to 38%, thereby reclassifying it as an investment rather than a subsidiary. This was followed by the receipt of a substantial cash dividend of €12.4m (net of withholding tax) during the period. The effect has been a sharp reduction in the reported group cash balance from £46m in the interims for September 2003. However, £42.1m of that was held in a quoted German subsidiary plagued by litigious minority shareholders, which meant that the use of those cash balances was effectively blocked. The 30 September cash balance of £17.8m therefore represents a dramatic improvement to the effective liquidity of SPARK. The further sale of another 24% stake after 30 September for £4.3m and the receipt of withholding tax of £1.8m, has improved this position still further. The remaining 11% stake in Spuetz is now an appropriate position to maintain whilst Spuetz works to develop its investment in Twister.

Whilst these sales of Spuetz stock have been extremely positive for the cash position of SPARK, they have had some negative corresponding effects for the valuation of the portfolio and therefore net assets. At the interims in September 2003, the consolidation of Spuetz as a subsidiary required us to reflect the net asset value of that company in our accounts. This was a strong, cash backed, net asset value derived in large part from a series of successful exits achieved during SPARK's ownership of Spuetz, culminating in the sale of Tullet & Tokyo to Collins Stewart in March 2003. However, to sell large blocks of illiquid Spuetz stock meant that in both the March and November transactions this year the sales could only be achieved at prices below net asset value per share. It was the sale of 1.3m shares made at €4.75 per share on 10 November that formed the basis of the valuation in our accounts at 30 September and triggered the downwards revaluation by £1.6m. It is this write down that substantially forms the unrealised loss in the Statement of Total Recognised Gains and Losses. In the second half, part of this will be transferred to the face of the Profit and Loss account as a realised loss.

Elsewhere in the portfolio, we have also seen falling values from some of the smaller investments, either where sales have been made at values below their March 2004 book value, or where we believe that weak performances suggest that a write down, or write off, would be prudent. The largest of these was a £500k write off for ROK Group Ltd., but in sum, they amounted to £988k (or 3% of the investment portfolio) which has been charged to the Profit and Loss account, and combined with the write down in the value of Spuetz contributed to a total fall of £2.6m. This is more than covered by the profits of the Pricerunner sale, but not by enough to cover the overheads for the period as well. The result is the small decline in the net asset value per share.

Portfolio developments

Now that Pricerunner is sold and the complex task of resolving the position with Spuetz is behind us, the focus can return to delivering value from other parts of the portfolio that now consists of investments in steadily maturing companies. The group of larger investments including Aspex, Mergermarket, Footfall, and Firebox, which continue to grow both in terms of revenues and market strength, represent an increasingly solid underpinning for the value of the portfolio. Indeed, it remains our view that these investments fall into the same category as Pricerunner in terms of their likely exit values compared to their current carrying values in the accounts of SPARK. Furthermore, in the case of both Aspex and Mergermarket there have been recent transactions with comparable companies that would suggest substantially higher valuations than those currently reflected in our accounts. As indicated in the annual accounts for the period to March 2004, it may be necessary to review whether the BVCA guidelines for valuing profitable companies (allowing upwards revaluations based on an earnings multiple) should be applied to some of these investments.

Elsewhere in the portfolio there are a few investments that have not featured much in our commentaries that are nevertheless beginning to develop strongly. In particular two, IMI Software (IMI) and Kobalt Music, have made substantial progress not yet reflected in their revenues or profits. IMI is based in India and originated as a software developer for the design of tower structures. Over the last 18 months it has developed and deployed a content provisioning platform for mobile operators in India (IMI mobile), combining both the technology and the content acquisition capabilities required to service a burgeoning market for content over mobile phones (SMS, MMS, ring tones, games, wallpapers, images etc.). Its customers are now mobile phone operators who between them have access to 75% of the 35m mobile phones in India. This market, with a population of a billion people and penetration of mobile handsets at only 3%, is generally regarded as being at the beginning of its growth cycle. In addition, IMI mobile is providing mobile content for resale through the largest portals in India (Yahoo and MSN), it provides the mobile return path for interactive TV programmes run by India's largest TV channel, Star TV (Part of the Murdoch group of companies), and it is winning contracts with operators outside India in Singapore and the Middle East. On the back of these contracts, IMI's revenues are growing rapidly, it employs 100 people and is profitable on an operating basis – yet a 36% stake is valued in our books at £300k.

In another market, Kobalt Music has developed a reporting and administration platform for the music publishing industry. Traditionally a rather neglected sector in a high profile industry, the efficient administration of copyrights has recently obtained much greater prominence as the major recording companies have seen profits falling from music sales, and as other financial institutions have seen the value in the annuities associated with good publishing assets. Coupled with the disenchantment long felt by writers suffering from inefficiencies in collection processes that benefit the publishers at the expense of artists, these trends are providing opportunities for Kobalt to win increasing profile and administration contracts traditionally the domain of larger players. Examples include administration contracts for copyrights of music legends such as James Brown, and writers for performers such as Eminem, Robbie Williams, Britney Spears, Janet Jackson and many others. Kobalt Music already administer for Sanctuary Music publishing and recently signed a joint venture with them to administer their acquired catalogues as well, winning as their first joint client the pop-reggae band UB40.

Both Kobalt Music and IMI mobile represent the potential for significant further growth in portfolio value in the medium-term. Along with our larger investments, they provide good access to investment opportunities for SPARK in emerging sectors where the association with, and experience gained from, developing successful new businesses can be converted into attractive dealflow. SPARK now has sufficient cash reserves to begin exploring these opportunities.

Operations

We continue to make good progress on mitigating the legacy effects of our ten year property lease. At the time of writing, our joint venture partners managing the serviced office space within 33 Glasshouse Street have successfully filled 92% of the desks, thereby reducing the costs of the building down from an annual cost of £1.4m to £300k. Whilst occupancy will vary with demand in the West End, this represents a strong performance and remains ahead of budget.

With this substantial rationalisation of both the property and the issues with Spuetz, the volume and complexity of the tasks outside portfolio management have reduced. Accordingly, we have been able to manage our headcount down to just five full time staff.

Changes to accounting policies

The restatement of the results from previous periods relates to two changes in accounting policy. The first is a mandatory change following the release of new accounting standards for the treatment of holdings in the Company's own shares which requires own shares held (in this case by the NewMedia SPARK Employee Benefit Trust) to be shown as a reduction to shareholders' funds rather than as an investment in the consolidated Balance Sheet. These shares have been deducted from the total issued shares in calculating net assets per share, thereby increasing net assets per share. The second change is aimed at simplifying the recognition of investment gains and losses. Following this latter change, both the Profit and Loss account and the Statement of Recognised Gains and Losses will only reflect changes in the realised and unrealised values of investments for the current period, rather than the cumulative effects of these changes with those of previous periods. This new policy has no effect on the reported net assets per share.

CONCLUSION

SPARK now represents a lean, focussed organisation with a strong balance sheet, a maturing portfolio of strategically placed investments, and a good quality deal flow. With stable markets we are confident that we will be able to demonstrate further value over the next 18 months and are equipped to take advantage of good quality investment opportunities as they arise.

COMMENTARY

continued

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 2004 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 reserves note, the consolidated reconciliation of shareholders' funds and related notes 1 to 5. 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 also responsible for ensuring that the accounting polices 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 2004.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
8 December 2004

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Interim Report to 30 September 2004

	Six months to 30 September 2004 £'000 Unaudited	Six months to 30 September 2003 £'000 Unaudited Restated	Year to 31 March 2004 £'000 Audited Restated
Turnover	–	–	639
Administrative expenses			
Salaries and other staff costs	(744)	(1,642)	(2,155)
Other administrative and operating costs	(958)	(2,280)	(3,340)
Depreciation	(125)	(469)	(574)
Other costs	(158)	(1,321)	(1,339)
Total administrative expenses	(1,985)	(5,712)	(7,408)
Other operating income	535	802	634
Operating loss	(1,450)	(4,910)	(6,135)
Gains from investments	2,104	434	2,119
Loss on disposal of subsidiary	–	–	(1,177)
Interest receivable and similar income	354	533	1,217
Profit/(loss) on ordinary activities before taxation	1,008	(3,943)	(3,976)
Tax (charge)/credit on loss on ordinary activities	–	(14)	139
Profit/(loss) on ordinary activities after taxation	1,008	(3,957)	(3,837)
Equity minority interests	–	545	391
Retained profit/(loss) for the period	1,008	(3,412)	(3,446)
Basic and diluted earnings/(loss) per ordinary share	0.22p	(0.74p)	(0.75p)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Interim Report to 30 September 2004

	Six months to 30 September 2004 £'000 Unaudited	Six months to 30 September 2003 £'000 Unaudited Restated	Year to 31 March 2004 £'000 Audited Restated
Profit/(loss) for the financial period	1,008	(3,412)	(3,446)
Unrealised (loss)/gain on investments	(1,721)	(523)	6
Movement in relation to own shares of subsidiary	–	–	(601)
Reserve transfer on lapse of warrants	–	–	8,391
Foreign currency translation	311	96	(907)
Total recognised gains and losses in the period	(402)	(3,839)	3,443
Prior period adjustment	(630)		
Total recognised gains and losses since the last Annual Report	(1,032)		

CONSOLIDATED BALANCE SHEET

Interim Report to 30 September 2004

	30 September 2004 £'000 Unaudited	30 September 2003 £'000 Unaudited Restated	31 March 2004 £'000 Audited Restated
Fixed assets			
Tangible assets	930	1,090	1,059
Investments	30,654	25,406	41,693
	31,584	26,496	42,752
Current assets			
Debtors	5,454	3,516	6,150
Cash at bank and in hand	17,836	46,357	10,860
	23,290	49,873	17,010
Creditors: amounts falling due within one year	(1,452)	(6,395)	(6,046)
Net current assets	21,838	43,478	10,964
Total assets less current liabilities	53,422	69,974	53,716
Provision for liabilities and charges	(743)	(3,207)	(743)
Equity minority interest	–	(12,832)	–
Net assets	52,679	53,935	52,973
Capital and reserves			
Called up share capital	11,799	11,799	11,799
Own shares held	(522)	(776)	(630)
Capital reserve	–	8,391	–
Share premium account	183,371	183,371	183,371
Revaluation reserve	(33,113)	(43,732)	(41,566)
Profit and loss account	(108,856)	(105,118)	(100,001)
Equity shareholders' funds	52,679	53,935	52,973
Net asset value per share	11.4p	11.7p	11.5p

	Number '000	Number '000	Number '000
Ordinary shares in issue	471,986	471,986	471,986
Shares held by Employee Benefit Trust	(9,819)	(10,675)	(10,675)
Shares in issue for net asset per share calculation	462,167	461,311	461,311

CONSOLIDATED CASH FLOW STATEMENT

Interim Report to 30 September 2004

	Six months to 30 September 2004 £'000 Unaudited	Six months to 30 September 2003 £'000 Unaudited	Year to 31 March 2004 £'000 Audited
Net cash outflow from operating activities	(1,011)	(5,039)	(8,533)
Return on investments and servicing of finance			
Interest received	354	537	1,217
Dividend received	5,787	–	–
Net cash inflow from returns on investments and servicing of finance	6,141	537	1,217
Taxation			
UK Corporation tax paid	–	–	(150)
Overseas tax paid	(2,228)	(273)	(331)
Net cash outflow from taxation	(2,228)	(273)	(481)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	–	(174)	(308)
Proceeds from disposal of fixed assets	5	–	54
Payments to acquire investments	(753)	(2,033)	(4,212)
Receipts from sales of investments	4,812	1,159	3,523
Net cash inflow/(outflow) from investing activities	4,064	(1,048)	(943)
Acquisitions and disposals			
Sale of subsidiary undertakings	–	–	9,061
Net cash sold with subsidiaries	–	–	(37,301)
Net cash outflow from acquisitions and disposals	–	–	(28,240)
Net cash inflow/(outflow) before financing	6,966	(5,823)	(36,980)
Financing			
Issue of ordinary share capital	–	6	6
Purchase of own shares by subsidiary	–	–	(2,462)
Net cash inflow/(outflow) from financing	–	6	(2,456)
Net cash inflow/(outflow) in the period	6,966	(5,817)	(39,436)
Analysis of changes in net funds			
Net cash inflow/(outflow) in the period	6,966	(5,817)	(39,436)
Foreign exchange differences	10	185	(1,693)
Increase/(decrease) in cash in the period	6,976	(5,632)	(41,129)

RESERVES

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
Reserves at 1 April 2004	183,371	(41,566)	(100,001)
Unrealised loss on investments	–	(1,721)	–
Previously unrealised losses now deemed permanent	–	10,174	(10,174)
Foreign currency translation	–	–	311
Profit for the period	–	–	1,008
Reserves at 30 September 2004	**183,371**	**(33,113)**	**(108,856)**

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

Interim Report to 30 September 2004

	Six months to 30 September 2004 £'000 Unaudited	Six months to 30 September 2003 £'000 Unaudited Restated	Year to 31 March 2004 £'000 Audited Restated
Profit/(loss) for the financial period	1,008	(3,412)	(3,446)
Other recognised gains and losses for the period	(1,410)	(427)	6,889
Reversal of amortisation of own shares	108	139	286
Reduction in capital reserve on lapse of warrants	–	–	(8,391)
Proceeds of issues of shares	–	6	6
Net reduction in shareholders' funds	(294)	(3,694)	(4,656)
Opening shareholders' funds – as previously reported	53,603	58,545	58,545
Impact of change in accounting policy	(630)	(916)	(916)
Opening shareholders' funds – restated	52,973	57,629	57,629
Closing shareholders' funds	52,679	53,935	52,973

NOTES TO THE INTERIM REPORT TO 30 SEPTEMBER 2004

1) The information relating to the six month periods ended 30 September 2004 and 30 September 2003 is unaudited. The information relating to the period ended 31 March 2004 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. The Interim Report has been prepared under accounting policies consistent with those adopted in the 31 March 2004 accounts other than as disclosed below.

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 2004 of 461,866,000 (31 March 2004: 460,878,000). These weighted average numbers exclude shares held by the Employee Benefit Trust.

4) At 1 April 2004, the Group revised its accounting policy for the valuation of investments, so that the profit or loss on disposal of investments is calculated with reference to the proceeds less the net book value of the investment. Any balance in the revaluation reserve is treated as realised and transferred to the profit and loss reserve.
The comparative figures for the year ended 31 March 2004 and the six month period ended 30 September 2003 have been restated to reflect this revision of accounting policy.
The effect of this restatement on the current period's results are, on the profit and loss account, to increase the total gains from investments and increase the overall profit for the period by £10.2m and to remove the adjustment for the same amount which would previously have been shown in the Statement of Total Recognised Gains and Losses to add back the losses recorded in prior years which had not been realised in prior periods. It has no effect on the total recognised gains and losses for the period, nor on the balance sheet.

5) At 1 April 2004, the Group revised its accounting policy for the treatment of shares held by the NewMedia SPARK Employee Benefit Trust (EBT) in accordance with Urgent Issue Task Force number 38. These shares are now shown as a reduction to shareholders' funds rather than as an investment in the consolidated Balance Sheet. The effect of this change on the balance sheets previously reported is to reduce the value of investments, net assets and equity shareholders' funds by £776,000 for 30 September 2003 and by £630,000 for 31 March 2004.

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