SPARK Ventures

Half Year Report 2014

SPARK Ventures plc (SPARK) is an AIM listed early stage venture capital company, established in 1999 and has a portfolio of investments in fast-growing technology companies.

SPARK is managed by a company owned by its former executive management team, SPARK Venture Management Limited ('SVML').

SPARK has no full-time employees but has a Board of five directors, being three independent non-executive directors and two representatives of its manager.

The SVML team is very experienced, has been investing in early-stage businesses for 14 years and has a wealth of expertise in backing and developing companies from start-up through to eventual trade sale or IPO. SVML is wholly-owned by SPARK Venture Management Holdings Limited ('SVMH').

Highlights

Profit for the period of £0.7m mainly as a result of realised and unrealised gains from IMImobile.

Strong share-price performance from IMImobile since the IPO – currently 25% above IPO price.

£19m returned to ordinary shareholders in the period, taking total returned since 2009 to £54m (13p per share), with NAV of 6.1p still on balance sheet.

Good commercial progress in remaining portfolio assets (DEM, Gambling Compliance, myDeco and Academia). Disappointing performance in Mind Candy but new products have been launched.

Operating expenses now considerably reduced.

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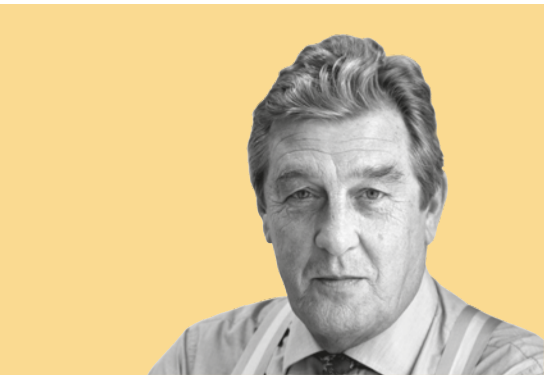
Chairman's Report

Dear Shareholder,

As we continue to harvest the portfolio of investments the most significant achievement during the last six months was the flotation of IMImobile. We were able to sell 22% of our stake at the time of the IPO which realised £3.5m of which £3.1m is held in escrow pending tax clarification.

The board is reasonably confident that this sum will accrue to shareholders but, as in everything with taxation, we cannot be certain and are not in control of the timing. As is standard practice for selling management or large shareholders at the time of an IPO the remainder of our shares are 'locked up' for a period of up to one year (27/6/2015) and can only be realised with the permission of the company and its brokers. The strong share price performance since IPO gives us some encouragement that we may be able to realise further amounts of stock before the end of the lock up but again we cannot be certain of this.



The board has continued to seek the best price for the remaining individual investments (now valued at £4.7m) rather than accept deeply discounted secondary offers. However, as the 31st March 2015 target date for their disposal approaches, it may be necessary to accept some discounts in order to achieve sales.

I would like to remind shareholders of the background to our plan to realise all the investments in the portfolio. In 2009 (when the share price was 5p) in response to a hostile takeover approach we re-organised the Company and undertook to realise the portfolio and return cash to shareholders by 31 March 2014 (subsequently extended to 31 March 2015). To date we have returned 13p a share and there remains over 6p at today's balance sheet valuations, equating to approximately 5.6p using the adjusted NAV per share (see note 6).

Your board has been considering the options for the Company itself and, among other options, is contemplating raising new funds in 2015 on the basis of the track record achieved in recent years in an asset class that is not readily available to investors in the public market. If we are unable to realise the IMI stake within the 'lock up period' an option may be to distribute the quoted shares in specie in June 2015 to shareholders. We will keep shareholders fully posted on these developments.

I am also glad to say that the dispute with a former director has been settled out of court. The terms of the settlement are subject to a confidentiality agreement, but the Directors believe that the settlement was in the best interest of shareholders and avoided the very substantial cost and timing risks that could have arisen had the matter gone to court. Other costs are well contained and the management fee paid to the Manager for advising on the portfolio has been reduced dramatically.

As we approach the end of a highly successful period when we have tripled shareholder value in six years we hope to bring forward proposals in the new year for a 'New Spark Ventures'.

May I take this opportunity to thank shareholders for their continued support.

Yours faithfully

David Potter
Chairman
12 December 2014

Investment Manager's Report

Introduction

Shareholders approved the extension of the managed realisation period from 31 March 2014 to 31 March 2015 at the General Meeting held on 25 April 2014. This allowed a further period to complete the realisations that had not been concluded by 31 March 2014, although considerable achievements were made in that period. As part of the extension, the Investment Manager was given a new contract for the same period on reduced terms.

The most important issue for the Manager to conclude in the year to 31 March 2015 is to obtain an exit from SPARK's largest remaining investment, IMImobile. Of secondary importance, was to obtain exits from the remaining portfolio assets.

IMImobile

As reported in the annual report, IMImobile was listed on the AIM market of the London Stock Exchange on 27 June 2014 – at a price of £1.20 per share, which valued the company at £63m prior to the inclusion of the new funds raised in the listing. SPARK sold approximately 22% of its stake in the IPO, raising £3.5m although the bulk of this (£3.1m) remains in a restricted bank account with IMI's lawyers pending SPARK providing greater clarity to IMI on its Indian tax position. This £3.1m is shown on the statement of financial position within 'other debtors'.

It is worth noting again that as part of the IPO, SPARK entered into a lock-up arrangement, in common with the other institutional investors. Whilst this allows sales of shares in the interests of maintaining an orderly market, and subject to the permission of both of IMI's brokers, SPARK has not yet been able to sell any stock, as it is only 5 months since the IPO. SPARK is in a much better position to realise cash at an attractive valuation from IMI now that it owns UK listed stock rather than private shares in an Indian business, although we no longer have a seat on the IMI Board.

Since the IPO, IMI has acquired a UK business (Txtlocal) and, as shown in their recent results announcement, has traded in line with market expectations. By 30 September IMI's share price had increased by 14% to £1.37 from the IPO price. This resulted in an unrealised gain of £2.1m in the period to 30 September 2014. Since 30 September, IMI's share price has continued to rise and is now around the £1.50 level – some 25% higher than the IPO price valuing SPARK's remaining stake, equating to 10.766m shares of IMI's issued share capital, at £16.15m.

Other portfolio assets

Both DEM solutions and Gambling Compliance ran sales processes in 2013 which unfortunately did not succeed for differing reasons. This is clearly not a helpful backdrop for attracting buyers for the entire business and it means we are more likely to have to sell SPARK's minority position rather than be part of a larger transaction. However they remain valuable portfolio assets, whose value has been held whilst the businesses make steady progress.

In particular, Gambling Compliance has continued to grow revenues, has consistently high renewal rates, and is on target to exceed £3m of sales for the calendar year – up 11% on the previous year.

By contrast, Mind Candy has continued to disappoint, missing budgeted revenues and reporting sales substantially behind previous years. Consequently we have lowered our assessment of the fair value of the enterprise which has resulted in SPARK reducing its valuation from £788k in March to £319k now. Should the new games being launched by Mind Candy prove to be successful then this valuation reduction may well be reversed.

In contrast to this pessimism, we have resurrected some value from the equity that SPARK holds in myDeco (previously SPARK only recognised its £100k secured loan). myDeco is now a holding company and does not trade. However it owns a 20% stake in Made.com – a successful internet based furniture distributor. It is clear that Made.com may become a valuable asset and therefore we have increased the fair value of our interest in myDeco from £100k to £576k.

The only other significant investment to comment on is Academia. Academia has continued to expand its user base and now has 17m monthly unique visitors. We have held the valuation of SPARK's stake in Academia at the value at which we sold shares at in March 2014.

Financial performance

The Company has reported a profit for the period of £0.7m as a result of the net realised and unrealised gains and losses from IMImobile (£1.8m) being greater than the company's administrative expenses of £1.1m.

Ordinarily, this would have led to NAV per share rising by 0.2p but the shareholder return of 4.5p per share in April 2014 together with some connected costs has meant that NAV per share fell in the period by 4.5p to 6.1p.

Cash balances have fallen by £21m from £25.7m to £4.7m as a result primarily of the £19.0m ordinary shareholder return and the payment to the D shareholders of £2.2m which represented the management incentive for performance from 2009 to 31 March 2014.

In contrast with prior years, property expenses were negligible and the management fee was significantly reduced. Other costs of £850k include professional expenses, with over £100k arising from the shareholder return, and an accrual for legal and settlement costs in the dispute with a former director that was settled on 29 September.

The total shareholder return made since August 2009 now stands at 13p per share, or £54m and there remains net asset value of 6.1p per share (5.6p per share when adjusted for the Manager's incentive fee). We hope to realise the balance of our investments in the coming months. We would expect to make a further return to shareholders once we have turned a significant part of the IMImobile stake into cash.

Conclusion

IMI's strong share-price performance since the IPO is encouraging and we are pleased at the outcome of our efforts in encouraging the company to take this exit route earlier in the year. Whilst it has so far given SPARK very little free cash to distribute, we believe the likelihood of realisation in the coming months is strong and the ultimate returns to shareholders should be pleasing. However, it is possible that it may take slightly longer to complete the realisation program than the currently planned end date of 31 March 2015.

We are somewhat disappointed not to have made more exit progress on the few remaining investments and will strive to ensure that much more progress in the realisation process is made by the year end.

SPARK Venture Management Limited
12 December 2014

Independent Review Report to SPARK Ventures plc

Introduction

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 2014 which comprises the Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity, Group Statement of Cash Flows and related notes.

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.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

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.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 enquiries, 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 consider that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2014 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
12 December 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group Statement of Comprehensive Income (condensed)

Six months to 30 September 2014

	Six months to 30 Sep 2014 £'000 Unaudited	Six months to 30 Sep 2013 £'000 Unaudited	Year to 31 Mar 2014 £'000 Audited
Continuing operations			
Gains and losses on investments at fair value through profit or loss			
Realised losses	**(386)**	(20)	(1,163)
Unrealised gains/(losses)	**2,154**	(5,658)	(3,518)
	1,768	(5,678)	(4,681)
Revenue			
Bank interest receivable	**9**	7	26
Fund management revenue	**75**	188	338
Portfolio dividends and interest	**–**	173	175
Other income	**–**	661	827
	84	1,029	1,366
Administrative expenses			
Salaries and other staff costs	**(65)**	(84)	(206)
Investment management fees	**(125)**	(515)	(897)
Fund management costs	**(75)**	(188)	(338)
Depreciation and amortisation	**–**	(35)	(99)
Property costs	**(7)**	(1,034)	(1,703)
Provisions for liabilities	**–**	–	(500)
Other costs	**(850)**	(184)	(575)
Total Administrative expenses	**(1,122)**	(2,040)	(4,318)
Profit/(loss) before taxation	**730**	(6,689)	(7,633)
Taxation	**–**	–	–
Profit/(loss) and total comprehensive income for the financial period	**730**	**(6,689)**	**(7,633)**
Attributable to:			
– Equity shareholders' funds of the parent	**730**	(6,689)	(7,633)

Group Statement of Financial Position (condensed)
At 30 September 2014

	30 Sep 2014 £'000 Unaudited	30 Sep 2013 £'000 Unaudited	31 Mar 2014 £'000 Audited
Non-current assets			
Property, plant and equipment	**–**	64	–
Investments at fair value through profit and loss	**19,486**	41,809	20,876
	19,486	41,873	20,876
Current assets			
Trade and other receivables	**46**	997	555
Other debtors	**3,123**	1,153	–
Restricted cash for shareholder return	**–**	8,285	–
Cash and cash equivalents	**4,654**	4,746	25,663
	7,823	15,181	26,218
Current liabilities			
Trade and other payables	**(1,623)**	(1,560)	(653)
Approved shareholder return	**–**	(8,285)	(2,200)
	(1,623)	(9,845)	(2,853)
Net current assets	**6,200**	5,336	23,365
Provision for liabilities	**–**	(340)	(500)
Net assets	**25,686**	**46,869**	**43,741**
Equity attributable to the shareholders of the parent			
Issued capital – ordinary shares and D shares	**1,135**	1,585	1,360
Share premium	**9**	9	9
Revenue reserve	**13,849**	35,032	31,904
Capital redemption reserve	**10,693**	10,243	10,468
Total Equity	**25,686**	**46,869**	**43,741**

Net assets per share

	No.'000	No.'000	No.'000
Ordinary shares in issue	**450,000**	450,000	450,000
Shares held in Treasury	**(31,154)**	(39,245)	(39,245)
Shares in issue for net asset per share calculation	**418,846**	410,755	410,755
NAV per ordinary share (pence)	**6.13**	11.41	10.65
Adjusted NAV per ordinary share	**5.61**	**–**	**–**

The adjusted NAV per ordinary share is calculated by deducting the contingent liability (£2.2m) as disclosed in note 6 from the net assets above, and dividing the resulting answer by 418,846,000 being the number of shares in issue excluding those held in Treasury.

Group Statement of Changes in Equity (condensed)
For the six months ending 30 September 2014

	D shares £'000	Ordinary share capital £'000	Share premium £'000	Revenue reserve £'000	Capital redemption reserve £'000	Total equity £'000
Balance at 1 April 2013	10	1,575	9	50,006	10,243	61,843
Loss and total comprehensive income for the financial period	–	–	–	(6,689)	–	(6,689)
Approved shareholder return	–	–	–	(8,285)	–	(8,285)
Balance at 30 September 2013 (unaudited)	**10**	**1,575**	**9**	**35,032**	**10,243**	**46,869**
Balance at 1 April 2013	**10**	**1,575**	**9**	**50,006**	**10,243**	**61,843**
Loss and total comprehensive income for the year	–	–	–	(7,633)	–	(7,633)
New 2013 B & C shares issued	–	(225)	–	–	225	–
Share buy-backs of 2013 B shares	–	–	–	(5,448)	–	(5,448)
Dividend on 2013 C shares	–	–	–	(2,821)	–	(2,821)
Cancellation of deferred C shares	–	–	–	(2,200)	–	(2,200)
Balance at 31 March 2014 (audited)	**10**	**1,350**	**9**	**31,904**	**10,468**	**43,741**
New 2014 B & C shares issued	–	(225)	–	–	225	–
Profit and total comprehensive income for the financial period	–	–	–	730	–	730
Share buy-backs of 2014 B shares	–	–	–	(14,000)	–	(14,000)
Dividend on 2014 C shares	–	–	–	(4,987)	–	(4,987)
Share options exercised	–	–	–	202	–	202
Balance at 30 September 2014 (unaudited)	**10**	**1,125**	**9**	**13,849**	**10,693**	**25,686**

During the year to 31 March 2014 the ordinary shares of 0.35p per share were re-classified as ordinary shares of 0.30p per share. At the same time the shareholders were issued with either 1 B share or 1 C share depending on the shareholder preference in an election. If a shareholder did not make an election, they received C shares by default. Each B share was re-purchased by the Company at 2p per share and then cancelled on 10 October 2013. Each C share received a dividend of 2p per share on 10 October 2013, after which the shares were deferred and subsequently bought back for 1.0p for the whole class and cancelled on 10 October 2013. The total amount returned to shareholders holding B or C shares amounted to £8.3m.

Following approval at a general meeting held on 25th April 2014, the same process as detailed above was followed but in this case 4.5p per share was returned to shareholders. The total amount returned to shareholder holding B or C shares amounted to £19m.

Group Statement of Cash Flows (condensed)

Six months to 30 September 2014

	Six months to 30 Sep 2014 £'000 Unaudited	Six months to 30 Sep 2013 £'000 Unaudited	Year to 31 Mar 2014 £'000 Audited
Cash flows from operating activities			
Cash flow from operations	**(3,182)**	(933)	(3,115)
Net cash outflow from operating activities	**(3,182)**	**(933)**	**(3,115)**
Cash flows from investing activities			
Purchase of financial investments	**–**	(70)	(70)
Sale of financial investments	**3,158**	11,706	33,636
Net cash inflow from investing activities	**3,158**	**11,636**	**33,566**
Cash flows from financing activities			
Dividends paid (C shares)	**(4,987)**	–	(2,821)
Share buy backs (B shares)	**(14,000)**	–	(5,448)
Dividends paid (D shares)	**(2,200)**	–	–
Share option exercise proceeds	**202**	–	–
Decrease in restricted cash	**–**	428	1,581
Net cash (outflow)/inflow from financing activities	**(20,985)**	**428**	**(6,688)**
Change in cash and cash equivalents	**(21,009)**	11,131	23,763
Opening cash and cash equivalents	**25,663**	1,900	1,900
Closing cash and cash equivalents	**4,654**	**13,031**	**25,663**

Reconciliation of operating income to net cash outflow from operating activities

Revenue	**84**	1,029	1,366
Administrative expenses	**(1,122)**	(2,040)	(4,318)
Operating loss	**(1,038)**	(1,011)	(2,952)
Decrease in trade and other receivables	**509**	(1)	440
Increase in other debtor	**(3,123)**	–	–
Increase/(decrease) in trade and other payables	**470**	44	(702)
Depreciation and amortisation	**–**	35	99
Net cash flow from operations	**(3,182)**	**(933)**	**(3,115)**

Notes to the Half Year Report

Note 1 – General information

SPARK Ventures plc is a company incorporated in the UK. The information set out in this unaudited Half Year Report for the periods ended 30 September 2014 and 30 September 2013 does not constitute statutory accounts as defined in section 435 of Companies Act 2006. Comparative figures for 31 March 2014 are derived from the financial statements for that year. The financial statements for the year ended 31 March 2014 have been delivered to the Registrar of Companies and contain an unqualified audit report, did not contain a statement under matter of emphasis and no statements under section 498(2) or (3) of the Companies Act 2006. This Half Year Report has been prepared in accordance with the AIM rules.

Note 2 – Basis of accounting

The Annual Group financial statements are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial information set out in this Half Year Report has been prepared using accounting policies, methods of computation and presentation consistent with those applied in the preparation of the accounts for the Group for the year ended 31 March 2014. This report does not itself contain sufficient information to comply with IFRS. These condensed consolidated interim financial statements have been prepared on the basis of IFRSs in issue that are effective at the Group's annual reporting date as at 31 March 2015. The principal subsidiaries that have been included in these results are SPARK India Ltd, SPARK Services Ltd, Quester Venture GP Ltd and Wycombe AH Realisations Ltd.

Note 3 – Going concern

The directors have considered the use of the going concern basis for the preparation of these financial statements within the context of the company's stated strategy of realising its remaining portfolio, which was extended to 31 March 2015. Although one possible scenario is the piecemeal disposal of the portfolio and the company then ceasing to trade, essentially becoming a cash shell, other alternative ways forward are under consideration which do not involve the cessation of trade. The Board has made no decision in this regard but will seek the most beneficial route to enhance shareholder value. Accordingly the directors remain of the view that the going concern basis of preparation is appropriate in preparing the Half Year Report.

Notes to the Half Year Report (continued)

Note 4 – Investments at fair value through profit and loss

Portfolio company name	Value at 31/03/2014 £'000	Additions £'000	Value at disposals £'000	Value at revaluations £'000	30/09/2014 £'000	30/09/2013 £'000
IMImobile	**16,200**	–	(3,544)	2,147	14,803	14,800
Kobalt Music	**–**	–	–	–	–	5,463
Notonthehighstreet.com	**–**	–	–	–	–	11,000
Mind Candy	**788**	–	–	(469)	319	1,577
Aspex	**–**	–	–	–	–	2,250
OpenX	**–**	–	–	–	–	2,500
DEM Solutions	**1,291**	–	–	–	1,291	1,291
Gambling Compliance	**1,458**	–	–	–	1,458	1,458
myDeco	**100**	–	–	476	576	100
Academia	**844**	–	–	–	844	924
	20,681	–	(3,544)	2,154	19,291	41,363
Other investments (1)	**195**	–	–	–	195	446
TOTAL portfolio	**20,876**	**–**	**(3,544)**	**2,154**	**19,486**	**41,809**

(1) Other investments include Firebox, mBlox, Crocus, Market Clusters and Quester Venture Partnership.

Note 5 – D Shares

The Company's D shares were created in 2009 to incentivise the manager to maximise the value of the portfolio in cash and make this cash available to shareholders.

On the basis of making over £59m of cash available to shareholders in the period from August 2009 to 31 March 2014, it was calculated that £2.2m was due to the D shareholders and after verification by the auditors, this amount was paid in September 2014, after which the D shares were cancelled.

Note 6 – Contingent liability

Following the entry into a new contract with Spark Venture Management Ltd in April 2014, new incentive arrangements were also entered into. If the entire holding of restricted cash and IMImobile shares is turned into free cash at current balance sheet valuations, the Manager would be due an incentive fee of approximately £2.2m. This additional fee has been reflected in the calculation of 'adjusted NAV per share' which is shown on the Statement of Financial Position. Additionally, if all the other investment assets were to be realised in cash by 31 March 2015 at their current valuations, the Manager would be due an incentive fee on these assets of approximately £1,000.

Officers and Professional Advisers

Directors
C.R. Berry
A.D.N. Betton
A.B. Carruthers (resigned 18 July 2014)
D.R.W. Potter
H.R. Sinclair
T.A. Teichman (appointed 18 July 2014)

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