

## Growth Equities & Company Research

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### Brainspark: Restructured and investing for growth; NAV 210p; long term buy at 125p

Brainspark is an AIM listed investment company that started life in the 'dot com' boom as a TMT incubator. Following a change in management and fundamental strategic analysis the company's focus has changed to becoming an investor in the theme parks and related entertainment markets, financial services companies and the renewable energy market, predominantly within mainland Europe.

During the past two years, the company has restructured, refinanced, and divested its China IPO and Infusion divisions to existing shareholders on a pro rata basis. This has enabled Brainspark and its two divested entities to capitalise upon their respective market opportunities.

Brainspark seeks to consolidate the fragmented European theme park market through a buy 'n' build and portfolio management model to scale up and develop its many opportunities.

The company has rapidly developed expanded its investment portfolio and although it is still early days, appears to have invested wisely. With the shares trading at 125p (following a 250 for 1 consolidation) or a 40.5% discount to a 210p net asset value, we would recommend the shares as a long term **buy**.

#### Forecasts Table

Year to 31 December	Pre-Tax Profit (£000)	Earnings Per Share (p)	Price Earning Ratio (x)	Dividend (p)	Yield (%)
2007A	38	2.5	50.0	0.0	0.0
2008A	(2,305)	(17.5)	NA	0.0	0.0
2009E	(570)	(37.5)	NA	0.0	0.0

Source: Company and Growth Equities & Company Research

Key	Data
EPIC	BSP
Share Price	125p
Spread	112.5p – 137.5p
Total Number of issued shares	9.52269 million
Market Cap	£11.9 million
12 Month Range	50p – 212.5p
Market	AIM
Website	<a href="http://www.brainspark.com">www.brainspark.com</a>
Sector	Financial Services
Contact	Francesco Gardin Chairman +39 335 296 573

## Background

In the early days of days of the 'dot com' gold rush, internet capital providers came from one of three general categories:

- Incubators
- Early stage venture capital, and
- Internet investment vehicles

The primary differentiator between the different capital providers, in order, was the degree of active participation within the invested business with incubators the most hands on while internet investment vehicles the most passive.

Brainspark started life in June 1999 as a technology incubator and by September 1999 had completed successfully its first funding round while in March 2000, the second round was completed. The company listed on Aim on 7 April 2000.

However, within 12 months of floating the 'dot com' investment bubble had burst and Brainspark's management rapidly responded by reducing the operational cost base, rationalizing the portfolio, scaling back on new investments and redirecting investment resources only to those investments that were anticipated to generate near term rewards.

On 5 February 2002, AISoftw@re SpA through an agreed cash offer secured control of Brainspark and Francesco Gardin was appointed Chairman. During September 2009, the company appointed Alfredo Villa to the Board while also appointing MacIntyre Hudson LLP to assist with a fundamental strategic review.

The results of that review were announced on 17 November 2009; Brainspark confirmed that the group would undergo a capital reconstruction and change of investment strategy to enhance future shareholder value. Consequently, group assets were allocated to three corporate entities:

- Brainspark plc,
- China IPO (2009) Limited; and
- Infusion (2009) Limited.

The share capital of the latter two entities being distributed on a pro rata basis to existing Brainspark plc shareholders.

On 9 December, shareholders approved the capital reconstruction, Brainspark's change in investment strategy and the separation of the three businesses with the effective date being 10 December 2009.

Brainspark's investment policy is to focus primarily upon the interactive media, leisure, entertainment, financial services and renewable energy sectors, mainly in Italy but also other European countries. The Company may also act as either an active or a passive investor in all target investments irrespective of their development stages.

## Business Overview

Brainspark is an investment company that is permitted by its Memorandum and Articles of Association to invest within these sectors:

- Theme Parks (globally following shareholder approval);
- Television & Digital Entertainment;
- Restaurants & Food;
- Construction & Development;
- Finance; and
- Renewable Energy.

### • Theme Parks

Brainspark has three investments comprising:

- **Mediapolis SpA** (28.8%)

Mediapolis is the sole owner of land (60 hectares), project, permits and all other rights related to the largest entertainment development in the Milan – Turin - Aosta urban area, accessible from the A6 motorway. The project after several years has recently been granted planning permission and construction could commence during the second half of 2010.

The project is made up of five different components:

- Theme Park;
- Shopping centre;
- Hotel and welcoming organisations;
- Energy production plants; and
- Satellite TV and events

Mediapolis can be accessed by 4 million people within a one-hour drive; the audience increases to 12 million within a two hours drive; by 18 - 20 million people within three hours drive; and 45 million people within 4 hours drive.

Mediapolis anticipate that annual paying admissions will be of the order of 1.6 million out of an annual visitor footfall of 6 million.

The asset is valued by Real Estate Advisory Group SpA at a market value of €52 million and by the management consultancy, Praxi, at €49 million.

- **Ondaland** (20%)

Ondaland, Italy's biggest Water Park with 27 attractions and 11 catering points, is set within a 45-acre site. Ondaland is located on the Milan - Turin motorway at the intersection of the Varese-Genoa motorway, next to the 'Vicolungo' Outlet and only 30 km from Mediapolis.

The theme park welcomes more than 350,000 visitors annually during its limited 3 months summer opening, and for the financial year ended 31 August 2009 generated revenues of €4 million and a pre-tax profit €1.25 million. The park has been valued at €27 million within the past two years.

It is understood that, ahead of a possible IPO, Ondaland may undertake a major expansion of its attractions, which would extend opening from 3 months to 6 months.

- **Entertainment**

Brainspark has five investments comprising:

- **Bibop (50.2%)**

Bibop, a digital marketing and advertising business, was founded in 1995 and in 2004 merged with Digital Magics to broaden and strengthen the product offering to include, for example video and 3G formats. The company has a leading position within the Italian market. Bibop is the owner of MYCAST, a proprietary and patented technology platform, which allows the development of three different lines of business:

- Licensing for platform use;
- Development of participation television formats; and
- Design of video communities.

Business risk and revenues are shared among display partners and contents producers.

Bibop specialises in content that focuses upon community building, games, children's entertainment, life styles, and news.

- **Filmmaster Television S.r.L (10%)**

Filmmaster Television established in early 2006, through the merger of Filmmaster Film (production of television programs and music videos) and Clip TV (controlled by Cinecittà Entertainment SpA).

Cinecittà is the owner and the founder of "CINECITTA WORLD," a Studio-based theme park in Rome, which will be developed in the Dino De Laurentis Studio's during 2010.

Filmmaster Television is one of the largest Italian players in this industry and has 3 business lines:

- **Channels:** The company produces two digital terrestrial television channels and broadcasts another three on behalf of Dhalia TV. The company also produces and manages the Roma Channel, which is the official channel of Roma football club.
- **Entertainment Shows:** The company holds the rights for many formats, including "High Voltage," an early evening show in partnership with RAI TV, and "2waytraffic" on behalf of Sony. It has a contract with Mediaset to produce 10 episodes of a prime time 'sketch show' format in 2010.
- **Fiction:** This division, during 2010, will be carved out into a new joint venture company with ownership split 51% Filmmaster Television and 49% held by William Ariè, a well-known television producer of fiction series.

○ **GeoSim** (13%)

GeoSim Systems has developed proprietary technology for the automation of the production process of 3D modelling of satellite and aerial images for use in the creation of very high-resolution 3D models of towns and other locations accessible via the internet.

Brainspark is interested in applying the GeoSim technology for the creation of attractions with 3D virtual entertainment as well as the creation of MMOG (Massive Multiplayer Online Gaming) that could be distributed through the MyCast platform developed by Bibop.

○ **AC Ancona** (44.8%)

Brainspark agreed to acquire from Investor Unlimited's (a company controlled by the AC Ancona CEO, Enrico Petocchi) 36.6% of the total issued share capital of Associazione Calcio Ancona, the Serie B Italian Football League club. Brainspark funded the total consideration of €1.66 million through the issue of 211 million new ordinary shares to Investor Unlimited.

Brainspark increased its investment in AC Ancona on 14 May 2010 through a further investment of €0.85 million in AC Ancona as part of a €10.2 million capital raise; of which a total of €1.48 million has been raised.

In the financial year to 30 June 2009, AC Ancona reported revenues of €6m and a net loss of €2.12m, the latter covered by a capital increase of €2.15m as of 29 January 2010. AC Ancona's assets as of 30 June 2009 stood at €5.2m.

Brainspark's rationale for the investment is that it opens up useful channels for the permissioning and development of new water and other theme parks within the area.

iRED TV, founded in 2004, is a satellite TV news channel dedicated to political

and social issues and owned by NESSUNOTV SpA. Many of its programmes are syndicated by more than 50 local Italian television channels. Red TV's studios are located Palazzo Grazioli, Rome.

- **Vyke (11.56%)**

Vyke was established in 2004 and through its UK base manages subsidiaries and offices in USA, Norway, Iceland and Malaysia.

Brainspark acquired an 11.56% interest in AIM listed Vyke Communications plc (AIM: VYKE) on 14 May 2010 for a cash consideration of £748,750. This investment was made as part of a £4.2 million placing by Vyke Communications.

Vyke is a leading mobile Voice over Internet Protocol ("VoIP") service provider, whose strategy is to provide a converged communications solution by combining its expertise in VoIP-based communication systems, mobile data service creation/handset technology and wholesale carrier network management.

Brainspark investment rationale is to exploit the identified synergies between Vyke and Mediapolis, Filmmaster and Bibop.

- **Restaurant & Food**

- **Indian Restaurant Group plc (29.9%)**

Brainspark acquired its 29.9% stake through the subscription for 5,578,994 new ordinary shares for a cash consideration of £139,474.85.

Indian Restaurant Group Plc, a listed company on the AIM (AIM: IRGP), owns and operates three established Indian restaurants within London's "theatre land." The company operates two formats:

- **Chowki**, casual dining; and
- **Mela**, premium informal dining.

Brainspark's investment rationale are to use Indian Restaurant Group

- as a platform to create an Indian fast food chain with outlets in food courts of shopping malls, commercial centres and theme parks; and
- a listed vehicle to bring Brainspark's Restaurant & Food division to market.

- **Financial Services**

- **Daniel Stewart Securities plc (5.7%)**

On March 3<sup>rd</sup> 2010 Brainspark subscribed for 25.0 million new ordinary shares in AIM listed corporate finance and broking house Daniel Stewart (AIM: DAN) for a total consideration of £0.5 million. Brainspark also acquired an option for £1 to purchase a

further 75.0 million shares at 2p at anytime until midday on 29 June 2010 and, if the Option is exercised, Alfredo Villa, CEO of Brainspark who has more than 20 years experience in the Swiss banking industry, would join the Board of Daniel Stewart as a Non-Executive Director.

Daniel Stewart recorded a significant loss in 2009 (£2.25 million) but has recently been recapitalised and has cut its cost base in a material manner and this investment is a play on the recovery story at Daniel Stewart as well as in the wider UK small cap market. Additionally, Daniel Stewart will provide the group with professional capabilities, expertise and placing power for future expansion should it be required. It is also understood that Brainspark is seeking an opportunity within AIM Italia and Daniel Stewart may support this ambition.

- **Miscellaneous**

- **Cogeme SET SpA (6.12%)**

On 18<sup>th</sup> May 2010, Brainspark invested €2.45 million in cash to acquired a 6.12% stake in Borsa Italiana listed Cogeme SET SpA (COG). The company is a leading Italian Tier 2 manufacturer of high precision components for the automotive sector, mainly producing turbochargers and fuel injection systems. The company focuses on high value added niches with strong barriers to entry with long lasting growth potential. Cogeme has established relationships with main Tier 1 suppliers in the automotive industry including Bosch, Honeywell, Delphi, Siemens and Magneti Marelli.

This investment is a short-term position to enable Brainspark to optimise cash resources as well as use the asset as leverage for other strategic investments.

## **Strategy for Growth**

Brainspark's long-term strategy is that, while adding value in its wider investment portfolio, to become a European market leader in the theme park sector with the Mediapolis concept being the hub. Mediapolis intends developing a physical 'social network' theme park where real and virtual worlds combine to create a novel user experience.

From this platform, Brainspark will seek to consolidate the fragmented European theme park market by applying a private equity buy 'n' build and portfolio management model. The strategy will include acquisition of established theme parks as well as companies related to that market.

## **Management**

**Francesco Gardin** Chairman

Mr. Gardin graduated in Theoretical Physics at Padova University in 1979, before undertaking a UK Government research project at Exeter University from 1980 - 1982. In 1983, Mr. Gardin joined the Italian National Research Council and from 1984 - 1985 he worked at the European Union Research Centre in Ispra, Italy as a co-ordinator for

the Artificial Intelligence Laboratory. Since 1984, he has been an Associate Professor at Udine, Milano, and Siena University. His academic writing includes more than 50 individual and joint publications. In 1983, Mr. Gardin founded AISoftw@re. Since then, he has been chairman of Exprivia, which went public on NASDAQ Europe in 1999 and Milano Stock Exchange in 2000.

**Mario Gabrielli** Vice Chairman

Mr Gabrielli holds a degree in Economics & Business from the Università Cattolica, Milan. He was the Chief Financial Officer of the Olivetti and ENI Groups and the Managing Director of Agricola Finanziaria, BNL Gestioni SGR and BNL Investimenti SIM. Mr. Gabrielli is a member of the Advisory Council of the National Association of Accounting and Financial Managers. He is a registered Revisori Contabili ('Official Auditor') and works as an auditor for Fitch Italia SpA. In 2000, he established Gabrielli Associati spa, a financial consulting firm in Milan and is currently a board member of Banca del Mediterraneo.

**Alfredo Maria Villa** Chief Executive Officer

Mr Villa has an Economics degree from the University of Geneva. Mr Villa's career started at Banca della Svizzera Italiana as a currency option dealer, and subsequently joined Soginvest Banca, member of the CIAL Group. In 1991, he co-founded the Lugano based investment banking company, Givigest Fiduciaria SA. While in 1994, he co-founded SCF SA, a financial consulting firm offering asset management services. Both of these companies were sold in 2001. Mr. Villa is a Chartered Technical Analyst certified by the US Market Technicians Association in New York, as well as a Stock, Option and Futures Broker certified by the National Association of Securities Dealers and an authorized Financial & Commercial Fiduciary in the Swiss Canton of Ticino. He is a board member and partner of Gabrielli & Associati in Milan, a financial consulting company. Mr Villa is also an independent consultant and private investor in several venture capital companies. Additionally, he is a Director of Moggle a Nasdaq listed Company, Chairman of Fondazione Settembre Onlus and Vice President of the Homes for Hope Charity.

**Gabriele Gresta** Chief Operating Officer

Mr. Gabriele Gresta has extensive international experience in viral projects, participation TV and formats for different technological platforms. In 2003, he established the first video-participation television format. Mr. Gresta created MyCast, a web, mobile and TV platform that offers video participation services to editors (web, telcos, and broadcasters). He began his international career as a software development director for Alpha Centre where he developed the first super-learning system. Mr. Gresta

returned to Italy where he launched a digital music revolution project with Mato Grosso, which topped the Italian dance music chart. He also cooperated with MTV Italy and TMC2 as a presenter, author, and producer of innovative programs. In parallel, he also coordinated strategy and conducted special projects for Telecom Italia. In 1995, he founded Bibop International Research, a cross-media agency, which produced "Mol" (the Mediaset portal), Telecom Italy Futurshow 2002, and Tim Tour 2002. In 2003, he created and produced 'Alice live', the first interactive web TV of Telecom Italia. In 2004, he was one of the founders of the Digital Magics Group of which he is currently the Vice President. Mr. Gresta leads Bibop's operations with the major broadcasters and telecom operators both in Italy and abroad (H3G Telecom, Vodafone, Rai, Sky, etc.).

**Alessandro Malacart**

Chief  
Financial  
Officer

Mr. Alessandro Malacart was a co-founder and COO of Milan Stock Exchange listed AISoft@re S.p.A. (now Exprivia S.p.A.), an Italian IT leader in decision support systems for the banking and medical sectors. Following the 1999 IPO of Exprivia on NASDAQ Europe, Mr. Malacart joined Inferentia DNM S.p.A. (now Fullsix S.p.A.) as COO to IPO the company on the Milan Stock Exchange in 2000. During the following two years, he was part of the acquisition and development team that managed Inferentia's rapid growth to become Europe's leading 'new media' agency. In 2003, Mr Malacart had been appointed CEO and CFO to AISoftw@re and positioned the business for a merge that doubled its size. From 2005, Mr. Malacart was appointed a Managing Partner of FOR Advisory S.r.l., an Italian wealth management boutique. More recently, he was appointed CEO and CFO of an industrial group with plants in Italy, France, Poland, and China, where he undertook a fundamental restructuring of business.

**Edward Burman**

Non  
Executive  
Director

Mr. Edward Burman has worked for many years as an independent consultant in the Telecom and Internet sector, and from 1999 to 2003, was the Senior Partner responsible for those sectors in Italy's most prestigious consultancy, Ambrosetti Ltd (Milan). He was also a Director of Ambrosetti Stern Stewart. He has lectured MBA students as a guest professor at the universities of Kent and Bologna, and has been a regular lecturer at the Italian Naval Staff College, Henley Management College, and Renmin University (Beijing). Since 2003, he has been working in China as a strategy consultant for Sinostrategy Ltd (Beijing) and as CEO of Shanghai based, Fizi Ltd. Mr. Burman has published fifteen books, including 'Shift: Hope, Hype and

**Haresh  
Kanabar**

Non  
Executive  
Director

History in Internet' and 'Stealth Empire'; the latter book is about present and future trends in China.

Mr. Haresh Kanabar has over 20 years of senior management experience for various companies and in various industries including many AIM listed companies. Mr. Kanabar qualified as a certified accountant in 1986. Following a number of different finance positions in Fisons, Reed International, and Texas Homecare, he became Finance Director of F E Barber, a subsidiary of Hilldown Holdings, in 1994. In 1997, he was appointed Group Finance Director of the Whitchurch Group plc while in May 1998 he was appointed finance director of TMV Finance Limited. In 1999, he joined Corvus Capital as CEO until November 2002 when he was appointed Finance Director of Gaming Insight plc. He is a director of a number of companies, including Aurum Mining, Indian Restaurants Group, Gasol, and India Star Energy.

Source: Company

## Significant Shareholders

Brainspark has 960,286,467 issued and full paid Ordinary shares of 0.01p each quoted on AIM. The main shareholders are:

**Table: Major Shareholders**

Shareholder	Number of shares	%
F. Gardin	273,047	3.01
A. M. Villa*	2,137,368	23.54
E. Burman	2,727	0.03
<b>Directors</b>	<b>2,413,142</b>	<b>25.34</b>
Bank Degroof	1,400,000	15.42
Sipiem	1,360,000	14.98
Digital Magics	792,000	8.72
RCF SA*	632,600	6.97
G. Borsari	416,000	4.58
Investor Unlimited	400,000	4.41
Homes for Hope	327,772	3.61
Fabio Bernini	320,000	3.52
Free Float	1,461,176	15.34
<b>Total</b>	<b>9,522,690</b>	<b>100.00</b>

Source: Company

Notes: \* Connected parties by virtue of A. M. Villa being Managing Director and a discretionary fund manager of RCF SA. Shares adjusted for 250 for 1 share consolidation.

## Recent Results

On 30 September 2009, Brainspark released its results for the 6-months ended 30 June 2009,

which covered another period of substantial change and portfolio realignment. During this period, the company sought, and received, shareholder approval to restructure the group balance sheet. The company also finalised the agreement between China IPO and London Asia plc as well as realising non-core assets to support its development.

**Table: Interim Results, £000**

<b>6-months ended 30 June</b>	<b>2009</b>	<b>2008</b>
Investment revenue	6	8
Gain on disposal of investments	197	200
Other operating expenses	(397)	(196)
<b>Loss before tax</b>	<b>(194)</b>	<b>12</b>
Tax	-	-
<b>Loss after tax</b>	<b>(194)</b>	<b>12</b>

**Earnings per share** (15.0p) 0.75p

Source: Company

Investment revenues, year on year, slipped from £8,000 to £6,000, while the gain on investments slipped by £3,000 to £197,000. However, other operating expenses increased significantly from £196,000 to £397,000 resulting in a pre-tax loss of £194,000 compared with a profit of £12,000 a year earlier. There was no tax charge for either reporting period, which meant that there was a loss per share of 15.0p compared with a positive 0.75p.

Since the end of first half, the repositioning of Brainspark's investment portfolio to maximise investor returns both short- and long-term has continued. To which end, the company has received an approach from US OTC listed Moggle for its 13.4% stake in GeoSim and discussions are ongoing. We understand that Moggle is well known to Brainspark's management and that any offer is likely to be an all share transaction.

The effective separation date for the separation from Brainspark of China IPO (2009) and Infusion (2009) was 10 December 2009. The Company successfully raised £550,000 (before expenses) on 18 December for further investment in Mediapolis and general working capital demands.

Therefore, we do not anticipate the booking of any investment income or asset disposal profit during the second half period ended 31 December 2009. Other operating expenses broadly match those of the first half's £397,000, which suggests a full year loss before tax of £570,000.

Since the year-end, Brainspark has raised a further £6.19 million for investing and general working capital requirements, through the issue of £2.95 million of new equity and £3.24 million (on-going £10 million capital raise) from a 7% Convertible bond 2014, which should alleviate any immediate investing concerns.

## Valuation

Brainspark is an ambitious investment company targeting the European theme park,

leisure, restaurant, financial services and renewable energy markets. It completed its fundamental restructuring last December through the divestment of China IPO and Infusion interests to existing shareholders. Nevertheless, the company has not wasted any time and has substantially enlarged its portfolio during 2010 while further strengthening its balance sheet by £6.19 million of which £2.95 million was raised through new equity and £3.24 million in a convertible loan.

### Table: Investment Portfolio

Investment	Investment Holding	Value £000
Mediapolis	28.8%	12,100
Ondaland	20.0%	4,490
Bibop	50.2%	1,460
Filmmaster	10.0%	650
Vyke	11.5%	610
GeoSim	13.0%	100
AC Ancona	44.8%	1,940
Indian Restaurant	29.9%	140
Daniel Stewart	5.7%	530
Cogeme SET	6.6%	1,760
<b>Total - Investments</b>		<b>23,780</b>
Add: Cash		70
Less: Total Debt		3,740
<b>Net Asset Value</b>		<b>20,110</b>
<b>NAV</b>		<b>210p</b>

Source: Growth Equities & Company Research; [www.ft.com](http://www.ft.com); [www.bloomberg.com](http://www.bloomberg.com); and Barclays Stockbrokers.

Notes:

1 €/\$ = 1.2021

2 Unquoted investments at investment value

3 Listed investments at mid price

4 Issued ordinary shares 9.52269 million

Although it is still early days, Brainspark does appear to have invested wisely with the NAV running at 210p compared with a share price of 125p (as adjusted for a 250 to 1 share consolidation). Consequently, with a Price/NAV discount of 40.5%, we would recommend the shares as a long term **buy**.

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Year to 31 December	Pre-Tax Profit (£000)	Earnings Per Share (p)	Price Earning Ratio (x)	Dividend (p)	Yield (%)
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