

HALF YEARLY FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED  
31 AUGUST 2007

Managed by SPARK Venture Management Limited

The objective of Quester VCT plc is to provide shareholders with an attractive tax free income and capital return enhanced by tax benefits, by investing in a diverse portfolio consisting largely of unquoted investments. From time to time the portfolio will also include quoted equities and fixed interest securities.

The venture capital portfolio focuses mainly on early stage technology-related companies in the ICT and healthcare sectors.

Dividends paid by Quester VCT plc, as an approved venture capital trust, are tax free to eligible shareholders, which substantially enhances the effective returns to shareholders.

**Investment in venture capital trusts should be viewed as a high risk, long-term investment. Eligible shareholders are reminded that a sale of their shareholding in Quester VCT plc may give rise to a loss of any capital gains tax deferral granted at the time of their original subscription.**

## Financial highlights

Per ordinary share (pence)	31 August 2007	28 February 2007	31 August 2006
<b>Capital values</b>			
Net asset value	34.2	41.6	41.8
<b>Return and dividends</b>			
Dividend	2.8	3.9	3.9
Cumulative dividend (tax free) <sup>(1)</sup>	49.5	46.7	46.7
<b>Total return<sup>(2)</sup></b>			
Quester VCT plc	83.7	88.3	88.5
Quester VCT 2 plc shareholders <sup>(3)</sup>	68.9	73.5	73.7
Quester VCT 3 plc shareholders <sup>(3)</sup>	44.0	48.6	48.8

(1) cumulative dividends paid by Quester VCT plc

(2) net asset value plus cumulative dividend per share

(3) total return to original shareholders in Quester VCT 2 plc and Quester VCT 3 plc. QVCT2 and QVCT3 were merged with Quester VCT plc in June 2005.

**The Directors have declared an interim dividend of 1.4p per share amounting to £1,600,000 to be paid on 7 December 2007. This dividend, which is not reflected in the table above, will increase cumulative dividends paid to 50.9p per share.**

The above table excludes any tax benefits (20% income tax relief and capital gains deferral) received on subscription for shares in the Company. Inclusive of initial income tax relief, the total return as at 31 August 2007 would be 103.7p, 88.9p and 64.0p per share respectively to original investors in Quester VCT, Quester VCT2 and Quester VCT3.

## Chairman's statement

### Net assets

The movement in net assets is summarised in the table below:

	£'000	Pence per share
<b>Net asset value at 28 February 2007</b>	<b>48,328</b>	<b>41.6</b>
Income	418	0.4
Operating expenses	(771)	(0.7)
Net realised gain on investments	459	0.4
Net unrealised loss on investments	(5,395)	(4.7)
<b>Net assets before dividends and share buy-backs</b>	<b>43,039</b>	<b>37.0</b>
Dividends paid net of amounts reinvested	(3,186)	(2.8)
Share buy-backs	(723)	–
<b>Net asset value at 31 August 2007</b>	<b>39,130</b>	<b>34.2</b>

### Comments, dividend and outlook

The Quester management company was acquired by SPARK in May of this year. While the two teams have been integrated, SPARK are adopting a fresh approach to Quester VCT, which has been endorsed by the Board. The accounting date is going to be changed to 31 December 2007 to simplify the administration of all of the Quester VCTs, which will report on the same date. In addition the name of the Manager has been changed to SPARK Venture Management Limited and it is intended to seek shareholders approval to a change of name of your Company to SPARK VCT plc in 2008.

The combined management team has been conducting a detailed and fresh review of the investments, which has focused on uncertainty that has arisen around poorly performing companies in the portfolio. Several investments have seen a transition to new managers within SPARK, while long standing and valuable relationships with former Quester managers have been retained, especially where they can contribute to an exit process. At this interim stage the review has resulted in a write down of 8 unquoted investments by £3.7 million resulting in a reduction in Net Asset Value of 3.3p per share. The quoted venture capital portfolio that is marked-to-market fell in value by £1.4 million (1.2p per share). The other major movement in Net Asset Value was the dividend of 2.8p per share in respect of the year ended 28 February 2007 that was paid in lieu of a final dividend on 21 March 2007. Substantial progress has been made, but the review is continuing and the outcome, which may be positive or negative, will not be known until the year end.

We are beginning to see the benefit of additional deal flow from SPARK, though the pace of investment has been curbed while the investment review is ongoing. SPARK intends to invest a greater proportion of funds into revenue generating companies to reduce the capital-intensive, early stage risk that has bedevilled the portfolio in past years. As noted in the Investment Manager's Report, a few companies may achieve an exit in the short term, however the rate of realisation is unlikely to pick up until 2009. The longer term outlook for

the portfolio is reasonably solid, with good progress being made in our investments in the life sciences sector.

As previously indicated, the Board is maintaining a high pay out for the moment and has declared an Interim Dividend of 1.4p per share, payable on 7 December 2007. This will bring the total paid out since the merger in July 2005 to 9.35p per share. While your Board expects to maintain this policy in respect of the period to 31 December 2007, future dividends will naturally depend much more on the rate of reinvestment of the liquid resources and the overall performance of the portfolio.

Jock Birney

**Chairman**

26 October 2007

## Responsibility statement

The Directors confirm to the best of their knowledge that:

- the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- the Chairman's statement includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remainder of the financial year; and
- the condensed set of financial statements (note 5) include a fair review of the information concerning related parties transactions as required by Disclosure and Transparency Rule 4.2.8R.

The half yearly financial report was approved by the Board on 26 October 2007 and the above responsibility statement was signed on its behalf by the Chairman.

## Investment manager's report

The investment team responsible for the management of Quester VCT plc is now being led by Andrew Carruthers, CEO of SPARK, along with Jay Patel, Executive Director, and Tom Teichman, Chairman of SPARK, and ongoing members of the Quester team.

The combined management team have been in place for more than half the period under review and are conducting an assessment of the existing portfolio investments, which we expect to complete by 31 December 2007. This review, combined with market events, has resulted in several significant down valuations, which are explained below.

On the 23 October 2007, the name of the Manager was changed to SPARK Venture Management Limited following the lead of its new parent which is now called SPARK Ventures plc. Following completion of the current review of the portfolio, we expect to be able to set out our position on new investment and the resulting composition of the portfolio going forward. It is intended to approach shareholders at the 2008 AGM to seek a name change of your Company to SPARK VCT plc, which will finalise the process that began on 11 May 2007 when NewMedia SPARK acquired Quester.

### **Venture capital portfolio: investment activity**

Investment activity has been restrained in the first six months of the year: one new venture capital investment was made (Symetrica, a company set up to commercialise proprietary, high performance gamma-ray spectroscopy, imaging hardware and software for use in nuclear, medical and process control industries) and £1.2m was made in follow-on investments.

### **Venture capital portfolio: realisations**

Realisations from the portfolio of quoted venture capital investments generated £1.2 million in proceeds and a net gain of £281,000 over carrying values at 28 February 2007. These transactions included the sale of the entire holdings in Cyclacel Pharmaceuticals, Revenue Assurance and Sopheon; and the tradable shares in MediGene AG that had been held following its acquisition of Avidex in September 2006.

### **Venture capital portfolio: valuation changes**

The fresh assessment of the fair values and events over the last six months of the investments in the individual portfolio companies that is being undertaken by the new combined management team has resulted in a net reduction in valuations on unquoted venture capital investments of £3.7 million:

- The valuation of two companies has been adjusted in line with the terms of funding rounds: Teraview completed a round in March 2007 resulting in a down valuation of £239,000 and in the case of Perpetuum, a new round has just been completed with new investors giving an uplift in the valuation of £130,000. In both cases we were encouraged by the commercial development of the companies concerned.
- Artisan and Community Internet Europe are implementing corporate restructuring programmes and in the light of current trading circumstances a reassessment has resulted in down valuations totalling £893,000.

## Investment manager's report (continued)

- In the case of Pelikon, the company is at a critical inflection point ahead of a likely further funding round (subsequent to the financing earlier in the year). We have taken a cautious view and made a down valuation of £695,000 which values the company at 25% of the cost of our investment.
- Advanced Valve Technologies and HTC Healthcare have found it difficult to achieve success with their planned strategies and the provision for impairment against both companies has been increased to 100% (reduction in valuations £1,170,000). We are continuing to work with these companies to achieve value from an exit from these investments.
- In the case of Keronite an impairment provision of 50% of the cost of our investment has been made to reflect the uncertainty arising from a downturn in trading conditions and similarly, Arithmatica has experienced difficulties in achieving its target cash flow and a provision of 75% of the cost of our investment has been made (reduction in valuations £844,000).

Quoted venture capital investments, which represent 17% of the value of the venture capital portfolio, have fallen in valuation by £1.4 million during the period. The portfolio suffered in line with other thinly traded AIM stocks. The share prices of Allergy Therapeutics and Vernalis suffered following adverse interim decisions on their respective products by the US Food and Drug Administration.

### Listed equity portfolio

The valuation of the listed equity portfolio has fallen by £294,000 over the half year partly offset by realised gains of £179,000.

### Conclusion

The level of provisions and consequently the effect on the Net Asset Value has been substantial since the new combined management team started its fresh assessment of the portfolio. The pace of new investment activity has also been restrained while we conclude that assessment, which will be complete by 31 December 2007. Nevertheless, SPARK initiated investment opportunities are now being made available to the Company.

There are a number of companies in the portfolio where the opportunity may exist for the achievement of a profitable exit in the relatively short term (late 2007-2008). However, the majority of the unquoted investments are in companies which are in the course of transition from the early stage, at which Quester VCT first invested, into the secondary phase of stronger revenue growth and progress towards profitability (and in the case of life science based companies, achieving demonstrable progress in developing drug candidates). Consequently, it is too soon to expect cash realisations from these investments in the near future; indications are that the flow of cash realisation proceeds from these investments, provided general market conditions are favourable, looks likely to be concentrated in the years from 2009.

SPARK Venture Management Limited

### Manager

26 October 2007

## Fund summary as at 31 August 2007

	Industry sector	Cost £'000	Valuation £'000	% equity held	% of fund by value
<b>Quoted venture capital investments</b>					
Allergy Therapeutics plc	Biotechnology	772	584	1.1%	1.5%
Genosis plc	Diagnostics & devices	1,355	347	8.0%	0.9%
Imagesound plc <sup>(1)</sup>	Industrial products & services	2,848	1,896	11.8%	4.9%
Landround plc	Other services	178	133	6.3%	0.3%
MediGene AG	Biotechnology	601	274	0.5%	0.7%
Phoqus Pharmaceuticals plc	Biotechnology	497	265	0.9%	0.7%
Vernalis Group plc	Biotechnology	886	670	0.5%	1.7%
<b>Total venture capital investments</b>		<b>7,137</b>	<b>4,169</b>		<b>10.7%</b>
<b>Unquoted venture capital investments</b>					
Advanced Valve Technologies Limited	Industrial products & services	2,773	-	12.8%	0.0%
Antenova Limited	Communications	1,134	1,019	4.7%	2.6%
Anthropics Technology Limited	Communications	115	45	7.0%	0.1%
Arithmatica Limited	Semiconductors	494	124	12.5%	0.3%
Artisan Software Tools Limited	Software	2,122	120	23.4%	0.3%
Casella Group Limited	Industrial products & services	902	110	17.8%	0.3%
Celldex Therapeutics Inc	Biotechnology	625	225	1.7%	0.6%
Cluster Seven Limited	Software	1,196	1,196	11.1%	3.1%
Community Internet Europe Limited	Internet	1,015	317	20.0%	0.8%
Elateral Holdings Limited	Software	2,126	1,009	24.4%	2.6%
Haemostatix Limited	Biotechnology	247	247	5.9%	0.6%
HTC Healthcare Group plc	Consumer services	2,448	-	36.7%	0.0%
International Diagnostics Group plc	Diagnostics & devices	1,176	690	23.9%	1.8%
Keronite Limited	Chemicals & materials	947	473	7.1%	1.2%
Lectus Therapeutics Limited	Biotechnology	854	854	7.0%	2.2%
Level Four Software Limited	Software	725	725	5.1%	1.9%
Nanotecture Group Limited	Chemicals & materials	87	87	0.8%	0.2%
Nomad Payments Limited	Software	2,675	3,605	18.7%	9.2%
Opsys Management Limited	Electronics	1,562	-	13.6%	0.0%
Pelikon Limited	Hardware	927	232	5.5%	0.6%
Perpetuum Limited	Electronics	435	565	8.0%	1.4%
Secerno Limited	Software	446	446	4.2%	1.1%
Sift Group Limited	Internet	2,395	2,249	19.8%	5.7%
Symetrica Limited	Diagnostics & devices	108	108	2.2%	0.3%
Teraview Limited	Diagnostics & devices	1,056	711	5.4%	1.8%
UniServity Limited	Software	1,000	1,000	16.5%	2.6%
Vivacta Limited	Diagnostics & devices	915	915	12.9%	2.3%
We7 Limited	Software	249	249	9.6%	0.6%
Workshare Limited	Software	695	695	1.9%	1.8%
<b>Total unquoted venture capital investments</b>		<b>31,449</b>	<b>18,016</b>		<b>46.0%</b>
<b>Total venture capital investments</b>		<b>38,586</b>	<b>22,185</b>		<b>56.7%</b>
<b>Listed fixed interest investments</b>		2,885	2,884		7.4%
<b>Listed equity investments</b>		10,774	12,677		32.4%
<b>Total investments</b>		<b>52,245</b>	<b>37,746</b>		<b>96.5%</b>
<b>Cash and other net assets</b>		1,384	1,384		3.5%
<b>Net assets</b>		<b>53,629</b>	<b>39,130</b>		<b>100.0%</b>

(1) Includes £1 million 5% fixed rate unsecured subordinated convertible loan notes 2012

## Condensed financial statements

### Profit and loss account

		6 months ended 31 August 2007 £'000	6 months ended 30 August 2006 £'000	Year ended 28 February 2006 £'000
	Note			
Net (loss)/profit on investments at fair value through profit or loss		<b>(4,936)</b>	1,673	1,712
Income		<b>418</b>	517	909
Investment management fee		<b>(442)</b>	(525)	(1,183)
Other expenses		<b>(329)</b>	(309)	(455)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(5,289)</b>	1,356	983
Tax on ordinary activities		-	-	-
<b>(Loss)/profit on ordinary activities after taxation</b>		<b>(5,289)</b>	1,356	983
Basic and diluted (loss)/profit per share	4	<b>(4.6)p</b>	1.1p	0.8p

All items in the above statement are derived from continuing operations.

The Company has only one class of business and derives its income from investments made in shares and securities and from bank deposits.

A statement of total recognised gains and losses has not been presented because all gains and losses are included in the statement above.

## Condensed financial statements (continued)

### Balance sheet

	31 August 2007 £'000	28 February 2006 £'000	31 August 2006 £'000
<b>Fixed assets</b>			
Investments	<b>37,746</b>	42,659	40,286
<b>Current assets</b>			
Debtors	<b>284</b>	989	709
Cash at bank	<b>1,319</b>	5,014	10,400
	<b>1,603</b>	6,003	11,109
<b>Creditors: amounts falling due within one year</b>			
Other creditors	<b>(219)</b>	(334)	(1,827)
<b>Net current assets</b>	<b>1,384</b>	5,669	9,282
<b>Net assets</b>	<b>39,130</b>	48,328	49,568
<b>Capital and reserves</b>			
Called-up equity share capital	<b>5,716</b>	5,805	5,928
Capital redemption reserve	<b>568</b>	465	335
Share premium account	<b>150</b>	51	–
Special reserve	<b>37,478</b>	38,820	41,239
Fair value reserve	<b>(6,517)</b>	(1,102)	(2,079)
Profit and loss account	<b>1,735</b>	4,289	4,145
<b>Total equity shareholders' funds</b>	<b>39,130</b>	48,328	49,568
<b>Net asset value per share</b>	<b>34.2p</b>	41.6p	41.8p

## Condensed financial statements (continued)

### Summarised cash flow statement

	6 months ended 31 August 2007 £'000	Year 30 June 28 February 2007 £'000	6 months ended 31 August 2006 £'000
Net cash inflow/(outflow) from operating activities	243	(828)	(317)
Net capital expenditure and financial investment	(29)	(3,861)	(1,513)
Dividends paid net of amounts reinvested under the dividend reinvestment scheme	(3,186)	(4,519)	(2,915)
Buy-back of ordinary shares	(723)	(1,471)	(548)
<b>Decrease in cash for the period</b>	<b>(3,695)</b>	<b>(10,679)</b>	<b>(5,293)</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Decrease in cash for the period	(3,695)	(10,679)	(5,293)
Net funds at the start of the period	5,014	15,693	15,693
<b>Net funds at the end of the period</b>	<b>1,319</b>	<b>5,014</b>	<b>10,400</b>
<b>Reconciliation of operating (loss)/profit to net cash flow from operations</b>			
(Loss)/profit on ordinary activities before taxation	(5,289)	983	1,356
Net loss/(profit) on investments at fair value through profit or loss	4,936	(1,712)	(1,673)
Decrease/(increase) in debtors	705	(137)	124
(Decrease)/increase in creditors	(115)	19	(129)
Amortisation of fixed interest investments	6	19	5
<b>Net cash inflow/(outflow) from operating activities</b>	<b>243</b>	<b>(828)</b>	<b>(317)</b>

## Condensed financial statements (continued)

### Reconciliation of movement in shareholders' funds

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
At 1 March 2007	5,805	465	51	38,820	(1,102)	4,289	48,328
Shares issued under the Dividend Reinvestment Scheme	14	-	99	-	-	-	113
Shares bought back	(103)	103	-	(723)	-	-	(723)
Realisation of prior years' net unrealised profits on investments	-	-	-	-	(20)	20	-
Transfer from special reserve to profit and loss account	-	-	-	(619)	-	619	-
Transfer of net unrealised loss on revaluation of investments to fair value reserve	-	-	-	-	(5,395)	5,395	-
Loss on ordinary activities after taxation	-	-	-	-	-	(5,289)	(5,289)
Dividend paid	-	-	-	-	-	(3,299)	(3,299)
<b>At 31 August 2007</b>	<b>5,716</b>	<b>568</b>	<b>150</b>	<b>37,478</b>	<b>(6,517)</b>	<b>1,735</b>	<b>39,130</b>

### Notes

- The financial information contained in this report has been prepared on the basis of the accounting policies set out in the Annual Report for the year ended 28 February 2007.
- A second interim dividend in respect of the prior year of 2.8p per share totalling £3,299,000 was paid on 21 March 2007.
- The number of ordinary shares in issue as at 31 August 2007 was 114,312,656 (31 August 2006: 118,559,937).
- The calculation of earnings per share for the period is based on the loss after tax of £5,289,000 (2006: profit of £1,356,000) divided by the weighted average number of shares in issue during the period being 115,321,504 (2006: 119,086,216) ordinary shares of 5p each.
- Quester Services Limited (a fellow subsidiary of the Manager) received transaction fees and directors' fees from investee companies totaling £27,000 during the period to 11 May 2007. Andrew Holmes was a director of Quester Services Limited until 11 May 2007.
- The Finance Acts 2006 and 2007 set out new regulations relating to the raising of capital, which extend to dividend reinvestment schemes. The regulations levy an undue administrative burden on the operation of such schemes and the Company has resolved to discontinue the Scheme, which will not operate in respect of the interim dividend.
- The half yearly report has been neither audited nor reviewed by the Company's auditors and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the period ended 28 February 2007 have been delivered to the Registrar of Companies and received an audit report which was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain any statements under S237 (2) and (3) of the Companies Act 1985.
- Interim management statements relating to the first and third quarters of the financial year will be released via the Regulatory News Service on or shortly before 20 July and 17 January each year.
- Copies of the half yearly financial report are expected to be sent to shareholders on 26 October 2007. Further copies can be obtained from the Company's registered office.

# Corporate information

## **Directors**

Jock Birney (Chairman)  
Andrew Carruthers (appointed 27 June 2007)  
Andrew Holmes  
Tom Sooke  
Christopher Wright

## **Secretary**

Nghi Tran

## **Manager and registered office**

SPARK Venture Management Limited  
33 Glasshouse Street  
London W1B 5DG

## **Registrars**

Capita Registrars  
Northern House  
Woodsome Park  
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Huddersfield  
West Yorkshire HD8 0LA  
Tel: 0870 162 3131

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly.

## **Brokers**

Noble & Company Limited  
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