



Quester VCT plc

Interim statement  
for the six months ended  
31 July 2004

Quester VCT plc is a venture capital trust established under the provisions introduced by the Finance Act 1995.

The Company's objective is to provide investors with an attractive income and capital return by investing in a broadly spread portfolio consisting largely of unquoted investments with strong growth prospects and also including quoted equities and fixed interest securities.

Dividends paid by Quester VCT plc, as an approved venture capital trust, are tax free to eligible shareholders. This applies to dividends derived both from income and from capital profits. This substantially enhances the effective returns to eligible subscribers for shares or purchasers of shares on the London Stock Exchange.

**Eligible shareholders are reminded that a sale of their shareholding in Quester VCT plc may give rise to the loss of any capital gains tax deferral granted at the time of their original subscription.**

## Financial highlights

Per ordinary share	6 months to 31 July 2004	Year to 31 January 2004	6 months to 31 July 2003
<b>Capital values</b>			
Net asset value	49.0p	50.1p	59.3p
Share price	44.0p	45.0p	44.0p
<b>Return and dividends</b>			
Dividend	—	—	—
Cumulative dividend	41.5p	41.5p	41.5p
<b>Total return*</b>	<b>90.5p</b>	<b>91.6p</b>	<b>100.8p</b>
Total return* inclusive of the initial 20% income tax relief	110.5p	111.6p	120.8p

\* Net asset value plus cumulative dividend per share

## Highlights from the Chairman's statement and Investment Manager's report

- The Company's net asset value per share has reduced by 1.1 pence per share to 49.0 pence
- The Statement of Total Return shows an aggregate loss for the period of £386,000
- The directors have decided that Quester VCT should commit a limited amount of its surplus liquid assets for investment in new venture capital opportunities. One such new investment was made in October in Allergy Therapeutics plc, an AIM traded investment
- A gain of £109,000, being 39% over carrying value, was achieved following the disposal of the remaining investment in Chelsea Stores Limited

## Chairman's statement

### OVERVIEW

During the six months to 31 July 2004, the Company's net asset value per share has reduced by 1.1 pence per share to 49.0 pence, a fall of 2.2%. After taking account of share buy-backs of £190,000, the net asset value of the Company fell from £17.1 million at 31 January 2004 to £16.5 million over the same period. The change in net asset value is summarised as follows:

	£'000	Pence per share
Net asset value at 1 February 2004	17,058	50.1
Net profit on realisation of investments	120	0.4
Income	161	0.5
Expenses	(365)	(1.1)
Net unrealised loss on revaluation of investments	(302)	(0.9)
Share buy-ins*	(190)	–
<b>Net asset value at 31 July 2004</b>	<b>16,482</b>	<b>49.0</b>

\*Share buy-ins have served to enhance net asset value per share by 0.04p per share

### RESULTS AND DIVIDENDS

The profit and loss account shows a net loss for the period of £84,000. This is comprised of investment income and net gains on realisation of investments of £281,000 less expenses of £365,000.

The Statement of Total Return, which includes net unrealised losses on investments of £302,000 as well as the loss reported in the Profit and Loss account, shows an aggregate loss for the period of £386,000.

Against the background of the results now reported, your directors have resolved not to pay an interim dividend.

### INVESTMENT PORTFOLIO

Although the portfolio has demonstrated a reasonable degree of stability over the period, some further provisioning amounting to £338,000 has been made against three unquoted investments. This has been partially offset by net unrealised gains of £33,000 accruing against the quoted venture capital portfolio and unrealised gains of £3,000 from the listed equity and fixed interest portfolios.

During the six months, a further £592,000 has been invested in five existing investments as part of the planned follow-on investment programme. No new investments were made. However, as demand for follow-on investment has reduced across the existing portfolio, the directors have decided that Quester VCT should commit a limited amount of its surplus liquid assets for investment in new venture capital opportunities. We believe that this is a positive move for our shareholders, thereby adding a fresh dimension to the portfolio.

One such new investment, Allergy Therapeutics plc – an AIM traded investment, was made in October.

A more in depth analysis of portfolio performance is provided in the Investment Manger's Report.

### **CONCLUSION**

It remains disappointing that we have not yet been able to report an uplift in net asset value on the back of gains from venture capital investments. However, we still hold the view that the overall portfolio contains the potential to deliver returns in the future. Given the nature and composition of the Company's investments, such gains of any materiality can only be expected to accrue over the medium term.

**Tom Scruby**

Chairman

15 October 2004

# Investment manager's report

## OVERVIEW

Over the six months to 31 July 2004, the underlying progress made by the venture capital portfolio was largely positive and the liquid reserves retained for future venture capital investment maintained a steady rate of return. Nonetheless a net capital loss of £196,000 (including realised and unrealised items) arose from the Company's venture capital investments.

## VENTURE CAPITAL INVESTMENTS MADE DURING THE PERIOD

Further investment from the Company's retained liquid reserves has been made in the following portfolio companies to support the continued development of their businesses.

<b>Company</b>	<b>Industry sector</b>	<b>£'000</b>
Advanced Valve Technologies Limited	Industrial products and services	271
Anadigm Limited	Semiconductors	80
Casella Group Limited	Industrial products and services	141
Nomad Software Limited	Software	95
Other		5
		<hr/> 592

Over the recent difficult years for small companies we have maintained a cautious reserving policy, which has enabled Quester VCT to continue to support promising investments. In some cases, in the short term, the terms of the investment transactions have resulted in a need to reduce previous carrying values in accordance with BVCA valuation guidelines. However, if the projects continue to develop in line with their medium term potential, these provisions may be reversed.

## REALISED AND UNREALISED VALUATION CHANGES IN THE VENTURE CAPITAL PORTFOLIO

The realised and unrealised valuation changes impacting the venture capital portfolio during the period were as follows:

<b>Realised</b>	<b>£'000</b>
Chelsea Stores Limited	109
<b>Unrealised – Quoted investments</b>	
Crown Sports plc	102
Sirius Financial Solutions plc	7
Sopheon Plc	(3)
Surfcontrol plc	11
XKO Group plc	(84)
	<hr/> 33
<b>Unrealised – Unquoted investments</b>	
Advanced Valve Technologies Limited	(16)
Communication & Control Electronics Limited	(141)
Nomad Software Limited	(181)
	<hr/> (338)
Net loss	<hr/> (196)

The disposal of the remaining investment in Chelsea Stores produced a gain of £109,000, being 39% over carrying value. The cumulative gain over cost on this investment, combined with the earlier realisation of the associated investment in HMV Media Group, was £183,000, equivalent to a 5.8% gain over cost of the two investments.

The provisions made against Advanced Valve Technologies and Nomad Software result from the refinancing terms of new investment rounds, although in both cases the companies have made some positive progress during the period. However, the fact that further financing is required indicates slower progress than planned towards achieving cash flow breakeven and the subsequent move onwards into building a profitable business. The markets in which these two companies operate, offer clear potential for these goals to be achieved over the medium term. The disappointing write down of the investment in Communication & Control Electronics has been made to reflect the anticipated value, which will be recovered from a process of administration and a sale of the business.

## PERFORMANCE OF THE VENTURE CAPITAL PORTFOLIO

A majority of the other companies in the portfolio have performed well over the last six months and in line with their budgets for the period, which is encouraging. There are a few

weak spots, however, and companies seeking to introduce innovative technology to new markets continue to find the markets tough: they are progressing, but more slowly than either we, or the management teams concerned, would like.

The positive underlying progress being made by a majority of companies cannot yet be reflected in any current improvement in the net asset value of Quester VCT. However, provided that the core of the portfolio continues to move forward in the way it has done over the last six months, we see some optimism about a recovery of investment values as justified.

### **LISTED EQUITY AND FIXED INTEREST PORTFOLIOS**

The listed equity portfolio has continued to provide a steady total return, which cumulatively equates to an internal rate of return of 8.3% per annum since the launch of Quester VCT. This reserve comprised 26 investments, valued at £2.0million at the end of the period. Gains of £14,000 and a yield of approximately 4.3% were achieved during the period. The listed fixed interest holdings were valued at close to cost at £3.5million and generated a yield of 3.4% over the period.

The listed equity and fixed interest portfolios continue to be retained as a reserve to support potential capital requirements from the venture capital investment portfolio. The directors have decided that it is now appropriate for the Company to make a limited number of new venture capital investments, as the likely demands for further investment from the existing portfolio have reduced. The first of these new investments has been made since the end of the period in Allergy Therapeutics plc, an established company developing new “allergy vaccines” to treat a range of respiratory allergies. This investment was made at the time of the company’s listing on AIM.

### **CONCLUSION**

In broad terms, the underlying performance of the majority of companies in the portfolio has been positive. Those companies in the portfolio seeking to sell innovative technology into the market continue to find the market tough and tend to be performing behind plan but they have broadly continued to grow their businesses and strengthen their market position. We believe that the management teams we are working with are highly motivated to deliver growth in investment values and we share their optimism that this can be achieved over the medium term.

## **Quester Capital Management Limited**

15 October 2004

## Fund Summary

As at 31 July 2004

	<b>Cost £'000</b>	<b>Valuation £'000</b>	<b>% equity held</b>	<b>% of fund by value</b>
<b>Quoted venture capital investments</b>				
Crown Sports plc	475	340	1.4%	2.1%
Sirius Financial Solutions plc	144	65	0.5%	0.4%
Sopheon plc	150	25	0.3%	0.2%
Surfcontrol plc	91	219	0.3%	1.3%
XKO Group plc	505	316	2.2%	1.9%
	1,365	965		5.9%
<b>Unquoted venture capital investments</b>				
Advanced Valve Technologies Limited	2,448	638	15.0%	3.9%
Anadigm Limited	1,588	476	4.1%	2.9%
Artisan Software Tools Limited	1,377	450	9.3%	2.7%
Casella Group Limited	1,206	716	6.7%	4.3%
Communication & Control Electronics Limited	562	140	8.3%	0.8%
Community Internet Europe Limited	507	127	3.5%	0.8%
Dycem Limited	345	345	37.5%	2.1%
Elateral Holdings Limited	1,942	61	6.2%	0.4%
HTC Healthcare Group plc	1,000	1,000	16.5%	6.1%
International Diagnostics Group plc	930	444	14.4%	2.7%
International Resources Group Limited	32	150	4.0%	0.9%
Linguaphone Group plc	840	420	5.3%	2.5%
Methuen Publishing Limited	751	751	26.2%	4.6%
Nomad Software Limited	1,206	276	8.1%	1.7%
Opsys Limited	1,392	392	4.3%	2.4%
Sibelius Software Limited	700	700	6.0%	4.2%
Sift Group Limited	875	729	5.0%	4.4%
	17,701	7,815		47.4%
<b>Total venture capital investments</b>	19,066	8,780		53.3%
<b>Listed fixed interest investments</b>	3,507	3,497		21.2%
<b>Listed equity investments</b>	2,205	2,042		12.4%
<b>Total investments</b>	24,778	14,319		86.9%
<b>Cash and other net current assets</b>	2,163	2,163		13.1%
<b>Net assets</b>	<b>26,941</b>	<b>16,482</b>		<b>100.0%</b>

# Unaudited financial statements

## PROFIT AND LOSS ACCOUNT

	<b>6 months ended 31 July 2004 £'000</b>	Year ended 31 January 2004 £'000	6 months ended 31 July 2003 £'000
Net profit/(loss) on realisation of investments	120	(1,169)	62
Income	161	456	231
Investment management fee	(199)	(387)	(243)
Other expenses	(166)	(287)	(167)
<b>Loss on ordinary activities before taxation</b>	<b>(84)</b>	<b>(1,387)</b>	<b>(117)</b>
Tax on ordinary activities	–	–	–
<b>Transfer from reserves</b>	<b>(84)</b>	<b>(1,387)</b>	<b>(117)</b>
Earnings per share	<b>(0.2)p</b>	<b>(4.0)p</b>	<b>(0.3)p</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<b>6 months ended 31 July 2004 £'000</b>	Year ended 31 January 2004 £'000	6 months ended 31 July 2003 £'000
Loss for the period	(84)	(1,387)	(117)
Net unrealised (loss)/gain on revaluation of investments	(302)	(1,550)	380
Total recognised (losses)/gains relating to the period	<b>(386)</b>	<b>(2,937)</b>	<b>263</b>
Total recognised (losses)/gains per share	<b>(1.1)p</b>	<b>(8.5)p</b>	<b>0.8p</b>

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.

## Unaudited financial statements – continued

### BALANCE SHEET

	Note	31 July 2004 £'000	31 January 2004 £'000	31 July 2003 £'000
<b>Fixed assets</b>				
Investments		14,319	14,049	19,586
<b>Current assets</b>				
Debtors		1,612	1,721	1,058
Cash at bank		1,046	1,716	87
		2,658	3,437	1,145
<b>Creditors: amounts falling due within one year</b>				
Other creditors		(495)	(428)	(298)
<b>Net current assets</b>		<b>2,163</b>	<b>3,009</b>	<b>847</b>
<b>Net assets</b>		<b>16,482</b>	<b>17,058</b>	<b>20,433</b>
 <b>Capital and reserves</b>				
Called-up equity share capital		1,682	1,704	1,722
Share premium account	1	2,787	2,787	2,787
Special reserve	1	14,871	15,129	17,448
Revaluation reserve	1	(5,771)	(5,644)	(3,631)
Profit and loss account	1	2,913	3,082	2,107
<b>Total equity shareholders' funds</b>		<b>16,482</b>	<b>17,058</b>	<b>20,433</b>
<b>Net asset value per share</b>		<b>49.0p</b>	<b>50.1p</b>	<b>59.3p</b>

## SUMMARISED CASH FLOW STATEMENT

	<b>6 months ended 31 July 2004 £'000</b>	Year ended 31 January 2004 £'000	6 months ended 31 July 2003 £'000
Net cash outflow from operating activities	<b>(176)</b>	(936)	(406)
Net capital expenditure and financial investment	<b>(494)</b>	2,008	(326)
Financing	–	(300)	(125)
(Decrease)/increase in cash for the period	<b>(670)</b>	772	(857)

### Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash for the period	<b>(670)</b>	772	(857)
Net funds at the start of the period	<b>1,716</b>	944	944
Net funds at the end of the period	<b>1,046</b>	1,716	87

## Notes to the unaudited financial statements

### I. MOVEMENT IN RESERVES

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 February 2004	2,787	15,129	(5,644)	3,082
Shares bought back	–	(168)	–	–
Transfer from the Special Reserve	–	(90)	–	90
Net unrealised loss on revaluation of investments	–	–	(302)	–
Transfer of net realised loss to profit and loss account	–	–	175	(175)
Retained loss for the period	–	–	–	(84)
At 31 July 2004	2,787	14,871	(5,771)	2,913

2. The financial information contained in this report has been prepared on the basis of the accounting policies set out in the Annual Report.
3. The number of ordinary shares in issue as at 31 July 2004 was 33,646,953 (31 July 2003: 34,441,775).
4. The calculation of earnings per share for the period is based on the loss after tax of £84,000 divided by the weighted average number of shares in issue during the period being 33,981,517 ordinary shares of 5p each.
5. The unaudited financial statements set out above do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
6. Copies of the unaudited interim results are expected to be sent to shareholders on 20 October 2004. Further copies can be obtained from the Company's registered office.

## Shareholder information

The mid-market price of shares in Quester VCT plc is reported daily in the Financial Times and appears under the heading “Investment Companies”. Estimates of the Company’s current net asset value per share are reported on certain days in the Financial Times. These estimates are not provided by Quester.

The Company generally announces its net asset value per share on a monthly basis. However, no announcements will be made in respect of year end net asset values and subsequent month end net asset values until the audited results have been released. Half year net asset value announcements and subsequent net asset value announcements will generally not be made until the internal valuation process for the unquoted investments has been completed. No other announcements regarding changes in the net asset value will be made unless material and/or required under the rules of the UK Listing Authority.

**Any queries regarding your holding of Quester VCT plc shares should be addressed to the Registrars.**

**DIRECTORS**

Tom Scruby (Chairman)

Simon Bakewell

Andrew Holmes

Tom Sooke

John Spooner

**MANAGER**

Quester Capital Management Limited  
(authorised and regulated by the FSA)

**SECRETARY**

MG Williams

**REGISTRARS**

Capita Registrars

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Quester Capital Management Limited is  
authorised and regulated by the FSA