



Quester VCT plc

Interim Report 2006

The objective of Quester VCT plc is to provide shareholders with an attractive income and capital return by:

- maximising the exit value of venture capital investments existing at the time of the merger and achieving as many exits as practicable during the next two years; and
- implementing a process of reinvestment of available liquid assets in venture capital investments, so as to maintain the status of Quester VCT as an approved venture capital trust.

The Company invests principally in a diversified venture capital portfolio, including unquoted companies with good growth prospects, quoted equities and fixed interest securities.

The portfolio focuses mainly on early stage technology-related companies in the ICT and healthcare sectors. Some of these companies are sourced from university affiliated funds which are also managed by Quester. This should be viewed as a long-term investment strategy involving high risks and rewards.

Currently Quester VCT expects to pay regular dividends. Dividends paid by Quester VCT are tax free to eligible shareholders, which substantially enhances the effective returns.

Shareholders are reminded that a sale of their shareholding in Quester VCT may give rise to the loss of any capital gains tax deferral and income tax relief granted at the time of their original subscription.

Financial highlights

Per ordinary share (pence)	31 August 2006	28 February 2006	31 August 2005
Capital values			
Net asset value	41.8	44.5	42.2
Share price	35.5	37.0	38.0
Return and dividends			
Dividend*	3.9	1.25	–
Cumulative dividend (tax free)	46.6	42.7	41.4
Total return**	88.4	87.2	83.6

*A final dividend of 2.5p per share was paid on 3 July 2006 in respect of the year ended 28 February 2006. An interim dividend for the current year of 1.4p is payable on 22 December 2006. (Ex-dividend date 22 November 2006, Record date 24 November 2006.)

**Net asset value plus cumulative dividend per share

The returns summarised above are applicable only to original shareholders of Quester VCT plc. They do not represent the historic returns to subsequent subscribers, including those who have assumed a shareholding in the Company following the merger with Quester VCT 2 plc and Quester VCT 3 plc.

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 to an original investor would be equivalent to 108.4p per share as at 31 August 2006.

Interim report

Overview

This period continued to be very active. Further sales have been achieved, generating cash and gains to support a continuing dividend flow to shareholders. Ten investments were made in new and follow-on investments.

There been a steady increase in the total return to shareholders since the merger in June 2005:

Per ordinary share (pence)	31 August 2006	28 February 2006
Net asset value	41.81	44.50
Cumulative post merger dividends	5.15	1.25
	46.96	45.75
Less merger FAV	(43.39)	(43.39)
Total return post merger	3.57	2.36
Total return as a percentage of merger FAV	8.2%	5.4%

Interim report (continued)

Net assets and dividends

	£'000	Pence per share
Net asset value at 1 March 2006	53,335	44.5
Income	517	0.4
Operating expenses	(834)	(0.7)
Net realised gain on investments	897	0.8
Net unrealised gain on investments	776	0.6
Net assets before dividends and buy-backs	54,691	45.6
Dividends paid and proposed, net of amounts reinvested	(4,575)	(3.9)
Share buy-backs	(548)	0.1
Net asset value at 31 August 2006	49,568	41.8

Following further good realisations, the directors have resolved to pay an interim dividend for the year of 1.4p per share, payable on 22 December 2006. A final dividend of 2.5p per share in respect of the prior year was paid on 3 July 2006.

Venture capital portfolio: realisations

There were three sales from the venture capital portfolio during the period generating proceeds of approximately £4.2million against a combined carrying value at the time of the merger of £3million. The sale of Methuen Publishing and Sibelius Software realised gains of £700,000 and £450,000 respectively over merger FAV. The £488,000 realised this year from the investment in Casella Group was in line with FAV; the receipt of further deferred proceeds is anticipated.

Since the merger in June 2005, £14.6million cash has been realised from the portfolio. We are not expecting this rate of sales from the portfolio to continue in the second half of the current year.

Venture capital portfolio: investment activity

During the period, £1.6million was committed to new investments and £1.7million to follow-on investments.

New investments

Company	Industry sector	£'000
Keronite plc	Industrial products & services	947
Ovum plc	Other services	375
Secerno Limited	Software	265
		1,587

The investment in Keronite was made as part of a £10.2million pre-IPO funding round. Keronite has developed a metal-coating process that hardens the surface of aluminium and magnesium producing outstanding resistance to corrosion and wear. This offers a cost-effective alternative to conventional coating methods meeting a growing demand from manufacturers. The company has partners operating its process across Western Europe, the

US and Asia and it has formed global alliances with companies throughout the light metal supply chain. The business is generating revenues, albeit at modest levels.

Ovum is a leading provider of research, market analysis and advisory services in the global ICT sector, with an international blue chip client base. The investment was part of a £6.1million AIM listing in March, which enabled Ovum to progress its strategy of international growth through new product development and acquisition. Following the period end, Ovum's board has recommended a cash offer from Datamonitor plc valuing the company at £41.8million or 300p per share, equivalent to a 58% uplift over the cost of Quester VCT's investment made seven months earlier.

The investment in Secerno was made as part of a £2million funding round. Secerno has developed a unique database and assurance platform, Secerno.SQL, which enables organisations to detect and prevent fraud, provide regulatory compliance and assure the integrity and privacy of online data. The platform addresses the increased threat to security faced by organisations, as highlighted by a number of recent high profile cases, protecting database systems without complicated user intervention.

This was also an active period for follow-on investment; £1.7million was invested in seven existing companies:

Follow-on investments

Company	Industry sector	£'000
Advanced Valve Technologies Limited	Industrial products & services	21
Allergy Therapeutics plc	Biotechnology	200
Haemostatix Limited	Biotechnology	42
Nomad Software Limited	Software	476
Sift Group Limited	Internet	135
Teraview Limited	Diagnostics & devices	197
Vivacta Limited*	Diagnostics & devices	675
		1,746

*formerly PanOpSys Limited

Allergy Therapeutics is a listed specialist pharmaceutical company with a profitable core business and a unique development pipeline with the potential to transform allergy treatment. There remains a large unmet medical need for allergy vaccines. Substantial year on year growth is being supported by an extensive global R&D programme to develop disease-modifying allergy vaccines. The company has made good progress internationally and the Pollinex Quattro vaccine platform is entering the final stages of development.

Nomad provides a comprehensive processing service for debit card and prepaid card based transactions. This service can be provided in-house or out-sourced through Nomad Processing Services. The company has developed a significant initial customer base for this service, principally relating to prepaid credit cards. The further investment will help accelerate the growth of this business.

Interim report (continued)

Vivacta, formerly PanOpSys, is an in vitro diagnostic company with novel technology designed to enable rapid, reliable and highly sensitive tests to be performed at the point-of-care. This form of testing allows tests to take place in a doctor's surgery or at the bedside, removing the need for samples to be despatched to laboratories for analysis. This is a fast growing market sector and the company's core technology is applicable to a wide variety of tests, although initially applied to blood testing. The company raised £3million in February, through a funding round led by Quester and is at an interesting stage in the optimisation and commercialisation of its patented piezofilm technology.

Venture capital portfolio: valuation changes

During the period, there was a £0.6million net increase in the value of the portfolio.

The unquoted portfolio increased in value by £1.8million, the only changes relating to Teraview and Nomad. Teraview continues to make positive progress but the valuation of the investment has been reduced by £108,000 to £947,000 following the lower pricing of its latest funding round. The valuation of the investment in Nomad has been increased by £1.9million back up to original cost, reflecting the progress made by its card payments processing business.

The quoted venture capital portfolio reduced in value by £1.2million during the period. The most significant valuation movements were seen in the holdings of Genosis and Imagesound. The £880,000 fall in value of the investment in Genosis, the producer of a combined male and female home fertility test, arose on the announcement of much slower than anticipated market penetration. The value of the investment in Imagesound recovered by £485,000. Subsequent to the half year, Quester VCT has invested a further £1million in Imagesound which sources and distributes profiled music, targeted messaging and audio-visual content to retail and leisure outlets.

Concerns about smaller companies generally led to a weak AIM market during the period, and this affected the valuation of a number of our quoted venture capital investments. By the end of October, however, there had been some recovery in the share prices of a number of these companies.

Listed equity portfolio

The listed equity portfolio has performed well over the half year despite the market correction seen in the summer. It achieved a total return of £628,000 during the period, equivalent to an IRR of 15.9% per annum.

The Company holds a bond portfolio valued at £4.6million, generating an effective yield of 4.8% per annum.

Dividend Reinvestment Scheme

We would like to draw attention to the Dividend Reinvestment Scheme, which shareholders are eligible to join at any time. Please contact Quester should you wish to participate in this scheme.

Conclusion

While the overall return to shareholders continues to increase, the pace of realisations has begun to reduce. More time is being spent on reinvestment and evaluating new opportunities. The Manager is building a portfolio with a balance of later as well as early stage investments. Overall performance shows a mixture of successes and disappointments, with good groundwork being laid for longer term performance.

The level of cash resources and overall progress in the portfolio allow the payment of incremental dividends. The toughening of the Revenue's VCT rules, with effect from 6 April 2007, may result in an acceleration of the final dividend in respect of the year ending 28 February 2007.

Jock Birney

Chairman

15 November 2006

Fund summary

As at 31 August 2006

		Merger valuation*	Valuation	% equity held	% of fund by value
	Industry sector	£'000	£'000		
Quoted venture capital investments					
Allergy Therapeutics plc	Biotechnology	799	841	1.1%	1.7%
Cyclacel Pharmaceuticals, Inc.	Biotechnology	800	207	1.1%	0.4%
Genesis plc	Diagnostics & devices	1,140	233	6.5%	0.5%
Imagesound plc	Software	1,848	1,027	11.8%	2.1%
Ovum plc	Other services	375	324	1.6%	0.6%
Sopheon plc	Software	56	43	0.2%	0.1%
Surfcontrol plc	Software	551	486	0.4%	1.0%
Vernalis Group plc	Biotechnology	900	886	0.5%	1.8%
XKO Group plc	Software	527	501	1.4%	1.0%
Total quoted venture capital investments		6,996	4,548		9.2%
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	631	631	12.8%	1.3%
Antenova Limited	Semiconductors	1,005	1,005	5.4%	2.0%
Anthropics Technology Limited	Communications	95	25	7.0%	0.1%
Arithmatica Limited	Semiconductors	338	338	12.5%	0.7%
Artisan Software Tools Limited	Software	1,172	1,172	23.4%	2.4%
Avidex Limited	Biotechnology	602	276	1.4%	0.6%
Casella Group Limited	Industrial products & services	110	110	15.8%	0.2%
Cluster Seven Limited	Software	743	743	9.3%	1.5%
Community Internet Europe Limited	Internet	634	634	17.4%	1.3%
Elateral Holdings Limited	Software	245	245	24.4%	0.5%
Global Silicon Limited	Semiconductors	600	600	7.6%	1.2%
Haemostatix Limited	Biotechnology	95	95	5.9%	0.2%
HTC Healthcare Group plc	Consumer services	1,664	1,664	36.7%	3.4%
International Diagnostics Group plc	Diagnostics & devices	690	690	23.9%	1.4%
Keronite plc	Industrial products & services	947	947	7.1%	1.9%
Lectus Therapeutics Limited	Biotechnology	248	248	7.0%	0.5%
Level Four Software Limited	Software	518	518	5.1%	1.0%
Lorantis Holdings Limited	Biotechnology	625	625	1.9%	1.3%
Nanotecture Limited	Industrial products & services	87	87	0.8%	0.2%
Nomad Software Limited	Software	1,363	3,224	18.7%	6.5%
Opsys Management Limited	Electronics	268	268	–	0.4%
Pelikon Limited	Electronics	708	708	5.5%	1.4%
Perpetuum Limited	Electronics	435	435	8.0%	0.9%
Secerno Limited	Software	265	265	4.2%	0.5%
Sift Group Limited	Internet	2,249	2,249	19.8%	4.5%
Teraview Limited	Diagnostics & devices	1,056	947	5.4%	1.9%
Vivacta Limited**	Diagnostics & devices	915	915	12.9%	1.8%
Total unquoted venture capital investments		18,308	19,664		39.6%
Total venture capital investments		25,304	24,212		48.8%
Listed fixed interest investments			4,556		9.3%
Listed equity investments			11,518		23.2%
Total investments			40,286		81.3%
Cash and other net assets			9,282		18.7%
Net assets			49,568		100.0%

*Fair value at the date of the merger on 29 June 2005, as adjusted for any subsequent purchases and sales

**formerly PanOpSys Limited

Unaudited financial statements

Profit and loss account

	Note	6 months ended 31 August 2006 Unaudited £'000	6 months ended 31 August 2005 Unaudited £'000	Year ended 28 February 2006 Audited £'000
Net profits/(losses) on fair value through profit or loss on investments		1,673	(1,197)	3,056
Income		517	356	1,070
Investment management fee		(525)	(273)	(778)
Other expenses		(309)	(244)	(486)
Profit/(loss) on operating activities before taxation		1,356	(1,358)	2,862
Tax on ordinary activities		–	–	–
Profit/(loss) on ordinary activities after taxation		1,356	(1,358)	2,862
Basic and diluted earnings/(loss) per share	4	1.1p	(2.1)p	3.3p

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.

Unaudited financial statements (continued)

Balance sheet

	31 August 2006 Unaudited £'000	28 February 2006 Audited £'000	31 August 2005 Unaudited £'000
Fixed assets			
Investments	40,286	37,105	43,806
Current assets			
Debtors	971	1,095	2,041
Cash at bank	10,400	15,693	6,279
	11,371	16,788	8,320
Creditors: amounts falling due within one year			
Other creditors	(2,089)	(558)	(812)
Net current assets	9,282	16,230	7,508
Net assets	49,568	53,335	51,314
Capital and reserves			
Called-up equity share capital	5,928	5,992	6,085
Capital redemption reserve	335	260	161
Share premium account	–	37,359	37,318
Special reserve	41,239	4,348	7,540
Fair value reserve	(2,079)	(2,477)	(3,020)
Profit and loss account	4,145	7,853	3,230
Total equity shareholders' funds	49,568	53,335	51,314
Net asset value per share	41.8p	44.5p	42.2p

Summarised cash flow statement

	6 months ended 31 August 2006 Unaudited £'000	Year ended 28 February 2006 Audited £'000	6 months ended 31 August 2005 Unaudited £'000
Net cash (outflow)/inflow from operating activities	(317)	96	461
Net cash inflow from merger	–	5,921	5,881
Net capital expenditure and financial investment	(1,513)	10,715	(1,221)
Dividends paid, net of amounts reinvested under the dividend reinvestment scheme	(2,915)	(1,480)	–
Buy-back of ordinary shares	(548)	(1,077)	(360)
(Decrease)/increase in cash for the period	(5,293)	14,175	4,761
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash for the period	(5,293)	14,175	4,761
Net funds at the start of the period	15,693	1,518	1,518
Net funds at the end of the period	10,400	15,693	6,279

Unaudited 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
At 1 March 2006	5,992	260	37,359	4,348	(2,477)	7,853
Shares issued under the terms of the dividend reinvestment scheme	11	–	80	–	–	–
Cancellation of share premium account	–	–	(37,439)	37,439	–	–
Shares bought back	(75)	75	–	(548)	–	–
Transfer of unrealised gain on revaluation of investments to fair value reserve	–	–	–	–	776	(776)
Transfer of net realised gain to profit and loss account	–	–	–	–	(378)	378
Dividends paid and proposed (note 2)	–	–	–	–	–	(4,666)
Profit on ordinary activities after taxation	–	–	–	–	–	1,356
At 31 August 2006	5,928	335	–	41,239	(2,079)	4,145

The share premium account was cancelled on 12 July 2006 and its credit balance was transferred to the special reserve.

The special reserve can fund buy-backs of ordinary shares as and when it is considered by the Board to be in the best interests of shareholders. It will also enable dividends to be paid out of capital gains achieved on investment realisations earlier than would otherwise have been possible.

Notes

1. 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 2006.
2. A final dividend in respect of the prior year totalling £3,006,000 was paid on 3 July 2006. An interim dividend of £1,660,000 is payable on 22 December 2006.
3. The number of ordinary shares in issue as at 31 August 2006 was 118,559,937 (31 August 2005: 121,711,519).
4. The calculation of earnings per share for the period is based on the profit after tax of £1,356,000 (2005: loss of £1,358,000) divided by the weighted average number of shares in issue during the period being 119,086,216 (2005: 64,711,854) 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. The statutory accounts for the period ended 28 February 2006 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain any statements under s.237(2) and (3) of the Companies Act 1985.
6. Copies of the unaudited interim results are expected to be sent to shareholders on 15 November 2006. Further copies can be obtained from the Company's registered office.

Corporate information

Directors

Jock Birney (Chairman)
Andrew Holmes – appointed 13 February 2006
Tom Scruby – resigned 20 June 2006
Tom Sooke
Christopher Wright

Secretary

Richard Drover

Manager and Registered Office

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