

**Quester Capital Management
Limited**

Registered number: 2454345

Directors' report and financial statements
31 March 2004



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The directors present herewith the audited financial statements for the year ended 31 March 2004.

Principal activities

The principal activities of the Company are the marketing, establishing, managing and operating of venture capital funds.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory.

Dividends and reserves

The directors propose the payment of a final dividend totalling £158,715 in respect of the year ended 31 March 2004 (2003: £178,265). No interim dividend was paid during the year (2003: £340,000).

The retained profit at the year end is £nil (2003: retained loss of £1,010).

Directors

The directors of the Company during the year ended 31 March 2004 and as at that date were:

SHV Acland
CJ Gee (appointed 1 January 2004)
APG Holmes
JB Milne
JA Spooner
ICS Wilcock
MG Williams

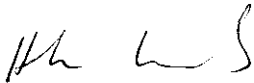
Directors' interests in shares of group companies

During the year, no director had any beneficial interest in the share capital of the Company or of any group undertakings other than in Querist Limited, Quester Venture GP Limited and Quester Academic GP Limited. Full details of these interests are shown in the accounts of Querist Limited.

Secretary

RJ Drover resigned as Secretary on 11 June 2004. HJ Lipscomb was appointed Secretary on the same date.

By order of the Board



HJ Lipscomb
Secretary

29 Queen Anne's Gate
London SW1H 9BU
14 July 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUESTER CAPITAL MANAGEMENT LIMITED

We have audited the financial statements on pages 4 to 11.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit PLC
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
14 July 2004

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2004

| | Note | 2004 £ | 2003 £ |
|--|------|--------------------|--------------------|
| Turnover | 2 | 5,124,421 | 5,796,135 |
| Administrative expenses | | (5,005,746) | (4,878,722) |
| Operating profit | 3 | 118,675 | 917,413 |
| Income from shares in subsidiary undertakings | | 22,168 | - |
| Interest receivable and similar income | | 83,584 | 79,791 |
| Profit on ordinary activities before taxation | | 224,427 | 997,204 |
| Tax on profit on ordinary activities | 5 | (65,712) | (479,949) |
| Profit on ordinary activities after taxation | | 158,715 | 517,255 |
| Dividends paid and proposed | 6 | (158,715) | (518,265) |
| Retained profit/(loss) for the financial year | | - | (1,010) |

There are no recognised gains and losses other than as shown above in the profit and loss account.

All operations arise from continuing activities.

The notes on pages 6 to 11 form part of these financial statements.

BALANCE SHEET

as at 31 March 2004

| | Note | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|--|------|-------------|-----------|-------------|-----------|
| Fixed assets | | | | | |
| Investments in subsidiary undertakings | 7 | | 33,650 | | 33,650 |
| Current assets | | | | | |
| Debtors | 8 | 825,308 | | 653,523 | |
| Cash at bank | | 1,036,443 | | 2,352,054 | |
| | | 1,861,751 | | 3,005,577 | |
| Creditors: amounts falling due within one year | 9 | (1,650,307) | | (2,794,133) | |
| Net current assets | | | 211,444 | | 211,444 |
| Creditors: amounts falling due after more than one year | 10 | | (225,094) | | (225,094) |
| Net assets | | | 20,000 | | 20,000 |
| Capital and reserves | | | | | |
| Called up share capital | 11 | | 16,510 | | 16,510 |
| Profit and loss account | 12 | | 3,490 | | 3,490 |
| Shareholders' funds attributable to equity interests | 13 | | 20,000 | | 20,000 |

The notes on pages 6 to 11 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 July 2004 and signed on its behalf by:



APG Holmes
 Director

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The Company is exempt from preparing group accounts under Section 228 of the Companies Act 1985. The ultimate parent undertaking in whose consolidated accounts the Company is included is Querist Limited, (see note 16).

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Valuation of investments

Investments in subsidiary undertakings are stated at cost as reduced by any pre-acquisition dividend received.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the realised gains or losses on translation are included in the profit and loss account.

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the management and operation of venture capital funds and the provision of management or advisory services to third parties.

3 Operating profit

Auditor's remuneration (both for audit and other services) is paid for by Quester Services Limited, another subsidiary within the Querist Group.

4 Directors' emoluments and employees

The Company had no employees during the year (2003: nil) and directors' emoluments were paid and borne by another group undertaking.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5 Tax on profit on ordinary activities

| | 2004 £ | 2003 £ |
|---------------------------------------|-----------|-----------|
| UK corporation tax at 30% (2003: 30%) | 8,171 | - |
| Group relief payable: | | |
| - in respect of current year | 52,507 | 372,270 |
| - in respect of prior year | 5,034 | 170,154 |
| Prior year adjustment | - | 3,275 |
| | <hr/> | <hr/> |
| | 65,712 | 545,699 |
| Deferred taxation | - | (65,750) |
| | <hr/> | <hr/> |
| | 65,712 | 479,949 |

Taxation has been provided against the profit on ordinary activities utilising group relief where it is available.

| Reconciliation of profit on ordinary activities to taxation | 2004 £ | 2003 £ |
|---|-----------|-----------|
| Profit on ordinary activities before tax | 224,427 | 997,204 |
| | <hr/> | <hr/> |
| Tax on profit on ordinary activities at standard UK corporation tax rate at 30% (2003: 30%) | 67,328 | 299,161 |
| Tax effect of : | | |
| Expenses not deductible for tax purposes | - | 7,359 |
| Dividends (from)/to group undertakings | (6,650) | 173,429 |
| Group relief prior year adjustment | 5,034 | - |
| | <hr/> | <hr/> |
| Current tax charge for period | 65,712 | 479,949 |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6 Dividends paid and proposed

| | 2004 £ | 2003 £ |
|----------|----------------|----------------|
| Paid | - | 340,000 |
| Proposed | 158,715 | 178,265 |
| | <u>158,715</u> | <u>518,265</u> |

7 Investments in subsidiary undertakings

| Cost and valuation | At 1 April 2003 £ | Additions £ | At 31 March 2004 £ |
|--|-------------------------|----------------|--------------------------|
| Quester Venture Participations Limited | 24,999 | - | 24,999 |
| Quester Venture GP Limited | 7,523 | - | 7,523 |
| Quester Academic GP Limited | 118 | - | 118 |
| Quester Venture Managers Limited | 1,010 | - | 1,010 |
| | <u>33,650</u> | <u>-</u> | <u>33,650</u> |

At 31 March 2004 the Company held an interest in the nominal value of the allotted shares as stated below (all companies registered in England and Wales unless otherwise stated):

| Name of subsidiary undertaking | Principal activity | Description of shares held | Percentage of class held |
|--|--|--|--------------------------|
| Quester Venture Participations Limited | Investment company holding interests in venture capital funds managed by the Company | Ordinary shares | 100% |
| Quester Venture GP Limited | Company registered in Scotland, General partner of Quester Venture GP Partnership | Ordinary shares 'A' ordinary shares | 100% 100% |
| Quester Academic GP Limited | General partner of Quester Academic GP Partnership and of venture capital limited partnerships | Ordinary shares 'A' ordinary shares | 100% 100% |
| Quester Venture Managers Limited | General partner of venture capital limited partnerships | Ordinary shares | 100% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Debtors

| | 2004 | 2003 |
|---|----------------|----------------|
| | £ | £ |
| Deferred tax asset due after more than one year | 65,750 | 65,750 |
| Prepayments and accrued income | 111,913 | 102,088 |
| Amounts owed by related parties | 508,682 | 485,534 |
| Amounts owed by group undertakings | 138,813 | - |
| Other debtors | 150 | 151 |
| | <u>825,308</u> | <u>653,523</u> |

The amounts owed by related parties represent amounts due from Quester VCT plc, Quester VCT 2 plc and Quester VCT 3 plc being management and secretarial fees payable under the terms of the respective agreements referred to in note 14.

9 Creditors: amounts falling due within one year

| | 2004 | 2003 |
|------------------------------------|------------------|------------------|
| | £ | £ |
| Amounts owed to group undertakings | 944,714 | 1,866,332 |
| Accruals and deferred income | 441,880 | 690,490 |
| Irrecoverable VAT | 147,067 | 137,311 |
| Corporation tax creditor | 10,024 | - |
| Amounts owed to related parties | 100,000 | 100,000 |
| Other creditors | 6,622 | - |
| | <u>1,650,307</u> | <u>2,794,133</u> |

The amount owed to related parties is an amount due to Quester VCT plc of £100,000, being an advance payment of the management fee payable, in accordance with the management agreement referred to in note 14.

10 Creditors: amounts falling due after more than one year

| | 2004 | 2003 |
|--|----------------|----------------|
| | £ | £ |
| Provision for third party interest in future priority profit share | 219,165 | 219,165 |
| Subordinated loan | 5,929 | 5,929 |
| | <u>225,094</u> | <u>225,094</u> |

Under the terms of the partnership agreement of Quester Venture GP Partnership, part of the priority profit share in due course accruing to that partnership as general partner of Quester Venture Partnership ("the Fund"), which would normally accrue in turn to the Company's subsidiary Quester Venture GP

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10 Creditors: amounts falling due after more than one year *(continued)*

Limited as its general partner, will subject to certain conditions accrue instead to a third party, in which case the amount so accruing will be £219,165 (2003: £219,165). Such entitlement will arise upon the investors in the Fund having received repayment in full of their loan commitments and the preferred return.

At 31 March 2004 there were guaranteed group bank overdraft facilities of £150,000 (2003: £150,000) in respect of Querist Limited and its subsidiary undertakings, of which £nil (2003: £nil) had been drawn down by the Group at the year end.

11 Called up share capital

| | 2004 £ | 2003 £ |
|---|-----------|-----------|
| <i>Authorised, allotted, called up and fully paid</i> | | |
| <i>Ordinary shares of £1 each</i> | | |
| At 1 April | 16,510 | 15,500 |
| Issued during the year | - | 1,010 |
| At 31 March | 16,510 | 16,510 |

12 Profit and Loss account

| | 2004 £ | 2003 £ |
|-------------------------------------|-----------|-----------|
| At 1 April | 3,490 | 4,500 |
| Retained profit/(loss) for the year | - | (1,010) |
| At 31 March | 3,490 | 3,490 |

13 Reconciliation of movements in shareholders' funds

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| Share capital issued during the year | - | 1,010 |
| Profit on ordinary activities after taxation | 158,715 | 517,255 |
| Dividends | (158,715) | (518,265) |
| Net change in shareholders' funds | - | - |
| Opening shareholders' funds as previously stated | 20,000 | 20,000 |
| Closing shareholders' funds | 20,000 | 20,000 |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Related party disclosure

The Company provides investment management services to five venture capital trusts, of which APG Holmes and JA Spooner are non executive directors. APG Holmes and JA Spooner have waived their entitlement to directors' fees in respect of each of these trusts. The total fees receivable by Quester Capital Management Limited in respect of each of these agreements for the year under review are detailed below:

| | Date of management agreement | 2004 £ | 2003 £ |
|-------------------|------------------------------------|-----------|-----------|
| Quester VCT plc | 22 February 1996* | 416,083 | 490,640 |
| Quester VCT 2 plc | 9 February 1998* | 621,040 | 869,814 |
| Quester VCT 3 plc | 19 January 2000 | 642,907 | 900,660 |
| Quester VCT 4 plc | 30 October 2000 | 1,047,107 | 1,040,012 |
| Quester VCT 5 plc | 3 December 2001 | 491,590 | 312,123 |

*: as subsequently amended

As more than 90% of the voting rights of the Company are controlled by Querist Limited, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the Group.

15. Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own consolidated financial statements.

16. Ultimate parent company

The ultimate parent company is Querist Limited, which is registered in England and Wales. Querist Limited is the only undertaking into which the results of the Company are consolidated. Copies of Querist Limited accounts may be obtained from the registered office at 29 Queen Anne's Gate, London SW1H 9BU.