

To Spark VCT Shareholders

18 April 2009

UK Shareholders Association
PO Box 62
Chislehurst
BR7 5YB
Phone: 020-8467-2686
Email: uksa@uksa.org.uk
Web: www.uksa.org.uk

Spark VCT Campaign – Update No. 1

This note is being sent to everyone who responded to our letter concerning the affairs of the Spark VCT. It covers the latest news and comments on the recently published Annual Report and Accounts and the forthcoming Annual General Meeting.

Thank you to everyone who responded to our mailing, which got a good overall response and some are still coming in. We received a lot of supportive comments. Donations to support the cost of this campaign were also better than we forecast.

Annual Report & Accounts

Several people commented to me that they did not receive a paper copy of the Annual Report as expected. This is probably because they did not “opt-in” to receive a paper copy and hence are assumed to be able to obtain it electronically from this web site: www.sparkvct.com.

The Chairman, Jock Birney, states that “*in very uncertain markets, the overall performance of the portfolio was satisfactory*”. Shareholders may not agree, because in essence your company’s assets declined in value from £37.7m to £29.7m, i.e. a fall of 21%. Admittedly this included the payment of a dividend of £3.1m but as we pointed out in our last note, this was not covered by any profits generated in the prior year. In fact the company made a loss of £4.8m in 2007 and the figure was not much better in 2008, with a loss of £4.2m. The decision to crystallise the payment of a performance fee to the manager added to expenses by about £1 million and certainly did not help.

In essence yet another year of disappointing financial results, and a declining investment portfolio value (which included a £2.8m loss on revaluation of investments and 0.3m loss recognised on disposals). No dividend is proposed for the current year.

Board Changes

But at least the board has accepted that change was necessary and the previous directors, other than Andrew Carruthers who represents the fund manager, are stepping down. Robin Field, who joined the Board in January will become Chairman, and there are two other new directors, David Adams and Greg Lockwood, also up for election at the AGM.

Robin Field was one person we suggested as a director (not necessarily Chairman), but none of our other suggestions were taken up. In addition Mr Field has been involved in some controversy lately in that he has been Chairman of one of the Artemis VCTs which recently merged – many shareholders objected to the new performance fee that was introduced at the time.

We also suggested that any new directors be existing shareholders and that they have a sound background in the sector in which this VCT invests (i.e unquoted early stage companies in the technology and healthcare sectors) – the latter to ensure they could properly evaluate the performance of the fund manager, and the former to ensure that their interests are aligned with those of the shareholders. Neither Mr Adams or Mr Lockwood were shareholders when appointed to the board, and it is not clear that their past experience is a good match. I will be asking for more justification for their appointment at the AGM.

In essence therefore, there are still some questions about the composition of the new board and its likely capabilities going forward. We therefore would urge shareholders to attend the AGM and judge for yourself whether the new board are the best qualified to take this company forward, and vote accordingly.

AGM Proxy Votes

If you are not able to attend in person, if you wish to appoint me as your proxy then please do so (you can do this by returning the proxy voting form and giving my name as the proxy rather than the Chairman's – you can either instruct me how to vote, or leave the votes open so that I can use my discretion on the day if there is a poll called). Alternatively you may wish to decide for yourself on the new directors, or cast a "vote withheld" vote if you are uncertain.

I will also be asking Mr Field to outline his plans for the future of the company at the AGM, or what process he might follow to tackle the problems of the company.

As regards the other resolutions on the agenda, we recommend voting for resolutions 1, 6, 7, 8, 9 and 10. Resolution 2 which is the vote on the Directors' Remuneration Report is more contentious in that the pay of the directors was clearly increased in 2008 and unjustifiably so in my view. I therefore recommend you vote against that.

Conclusion

We will review the position of this company further after we have heard what is said at the AGM in response to the questions that I and other shareholders are likely to ask.

Roger Lawson
Communications Director, UK Shareholders Association
Email: uksa@uksa.org.uk, Web: www.uksa.org.uk, Direct telephone: 020-8467-2686

Note that all previous information issued by UKSA in respect of our campaign on the Spark VCT is present on the following web site page: www.uksa.org.uk/Spark.htm