Quester VCT plc.

CONTENTS

QUESTER VCT plc

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

The Company's objective is to provide shareholders with an attractive income and capital return by investing mainly in a broad spread of unquoted UK companies, which meet the relevant criteria for venture capital trusts.

The Company will also invest up to 20 per cent of its funds in the quoted equities and securities of the 350 largest companies on the Daily Official List of the London Stock Exchange.

SUMMARY OF RESULTS

Attributable to ordinary shareholders	**Year ended 31 January 1998**	**58 weeks ended 31 January 1997**
Assets		
Net assets	£32,715,072	£13,237,939
Net assets per share (after final dividend)	107.6p	97.2p
Share price (mid-market)	102.0p	95.0p
Revenue		
Return per share	2.6p	2.8p
Dividends per share:		
net—	2.3p	2.0p
gross—	2.9p	2.5p

SHAREHOLDER INFORMATION

Annual General Meeting	12 May 1998
Final Dividend for 1997/98 paid	14 May 1998
Associated record date	24 April 1998 (for shares issued prior to 1 February 1998)

The notice of annual general meeting is contained on page 35. A proxy form can be found on page 37. We would be grateful if completed proxy forms could be returned to IRG plc no later than 8 May 1998 using the prepaid envelope provided.

The mid-market price of shares in Quester VCT plc is reported daily in the Financial Times and appears under the heading "Investment Companies".

The Company will announce changes in its net asset value on a quarterly basis. No other announcement of changes in the net asset value will be made, unless material and/or required under Stock Exchange rules.

CHAIRMAN'S STATEMENT

This is the second Annual Report and Accounts of Quester VCT plc and covers the results for the year ended 31 January 1998.

SHARE ISSUES

The Company raised a further £17.7 million during the year. Taken together with the £13.7 million of equity raised when Quester VCT was established in 1996 the aggregate amount raised totals some £31 million after costs.

We welcome all our new shareholders.

INVESTMENTS

Our key objective is to provide shareholders with an attractive overall rate of return on their investment by investing in a portfolio substantially comprising unquoted companies. By 31 January 1998 we had invested a total of £9.5 million in a spread of fourteen qualifying companies. The rate of investment so far achieved represents solid progress and includes seven new investments and two follow-on investments made during the year at a cost of £6.1 million. Since the year end, at a cost of £2.5 million, we have made four further new and two additional follow-on investments.

The amount of the company's funds invested in listed FTSE 350 companies rose during the year from £1.6 million to £5.6 million. This position continues to reflect Quester VCT's policy of holding approximately 20 per cent of its assets in fixed interest investments and FTSE 350 stocks.

Overall, the underlying performance of Quester VCT during the year has been encouraging. At 31 January 1998 there is an unrealised capital reserve of £3,044,000, £2,743,000 of which represents a net increase during the year in the unrealised value of investments, reflecting an across the board improvement in each of the three principal investment areas, unquoted investments, investments traded on AIM and FTSE 350 companies. It is to be expected that there will be some future fluctuation in the level of the capital reserve but a good start has been made. The amount of the unrealised capital reserve is equivalent to an 11.3 per cent increase in value over the cost of investments made, excluding from the calculation those funds awaiting investment which are held either in cash or short term gilts. The unquoted investments, which have been valued in accordance with applicable venture capital investment guidelines, show a net 16.5 per cent improvement with the majority remaining at cost. The four AIM-traded investments, one of which is now listed on the Official List of the London Stock Exchange, show a 56.1 per cent improvement over cost and the FTSE 350 investments a 10.9 per cent improvement.

NET ASSET VALUE

The net asset value per share at 31 January 1998 amounted to 107.6 pence per share compared with 97.2 pence per share on 1 February 1997, an increase of 10.7 per cent.

REVENUE STATEMENT

The total revenue received during the year, which was broadly in line with our budget, amounted to £1,386,000. £955,000 of this income was derived from short dated gilts and money market deposits where we have invested pending investment in unquoted companies. The balance of the revenue comprised £149,000 received from FTSE 350 investments and £282,000 from the unquoted and AIM investments. It is worth emphasising that income derived from investments may fluctuate as a result of a number of factors, not least the pace of investment in unquoted companies and the nature of the companies involved.

CHAIRMAN'S STATEMENT

(continued)

DIVIDEND

It is proposed that a final dividend of 1.5 pence per share be paid making, with the interim dividend of 0.7875 pence per share paid on 7 October 1997, a total of 2.2875 pence per share compared with 2.0 pence per share last year. The total dividends for the year, which are shown net of any associated tax credit, absorb £696,000. Dividends are paid gross to all those shareholders who are eligible, representing tax free income.

OUTLOOK

The signs from the majority of our existing portfolio of investments are encouraging.

Since the year end we have, as we have indicated above, continued to make investments in a number of new qualifying companies. We are at various stages of evaluating further potential opportunities.

Following the recent formation of Quester VCT 2 plc, it is anticipated that co-investment with the new fund will enable our existing fund to participate in companies which would otherwise have been too large to satisfy the desired risk profile.

Tom Scruby

Chairman

14 April 1998

DIRECTORS

Tom Scruby (63), Chairman, is executive chairman of the Gieves Group plc. His non-executive directorships include Centaur Communications Limited. Tom Scruby has many years' experience of investment in, and management and direction of, small companies. Until 1984 he was a director of London and Yorkshire Trust Limited, an early specialist in small company investment. After qualifying as a chartered accountant, he spent a number of years with KPMG in Hong Kong, part of which period was devoted to developing the firm's new issues department. He is chairman of the recently formed Quester VCT 2 plc.

Simon Bakewell (42) is joint managing director of Nelson Bakewell, Chartered Surveyors. Simon Bakewell co-founded Nelson Bakewell in 1982. Nelson Bakewell advises a wide range of companies on property-related matters throughout the UK. He has broad experience of the property issues facing smaller companies. He is a member of the Audit Committee.

Andrew Holmes (53) is managing director of Quester Capital Management Limited and has substantial venture capital experience, having founded Quester in 1984, prior to which he spent eight years with 3i, where he managed the largest investment office. His commercial experience is based on an early career as a commercial lawyer with City solicitors Freshfields and in corporate finance. He is a non-executive director of Quester VCT 2 plc.

Richard Prest (51) is chairman of Faber Prest plc, the industrial services company which he joined in 1975 brought to the London Stock Exchange in 1990 and which has recently been sold in an agreed bid to Harsco Corporation. After obtaining an engineering degree and serving in the Royal Navy, he gained an MBA from Cranfield. He has been a director of a number of smaller companies. He is chairman of the Audit Committee.

Tom Sooke (53) is a chartered accountant and chairman of corporate finance firm, CitiCourt & Co. Limited, which he founded in 1991. Up to 1987, he was a director of what is now Granville Holdings plc where he had responsibility for their private equity fund management. Between 1988 and 1991 he was a corporate finance partner at Deloitte & Touche. He has been a director of a number of unquoted companies and was until recently a non-executive director of Baronsmead Investment Trust plc. He is a member of the Audit Committee.

John Spooner (44) founded Quester in 1984 after six years with 3i. He has acted as a director of a number of companies in Quester Capital Management Limited's portfolio, with particular involvement in the business services and leisure sectors. He is also a non-executive director of Warner Howard PLC. He qualified as a chartered accountant with Moore Stephens. He is a non-executive director of Quester VCT 2 plc.

MANAGEMENT AND ADMINISTRATION

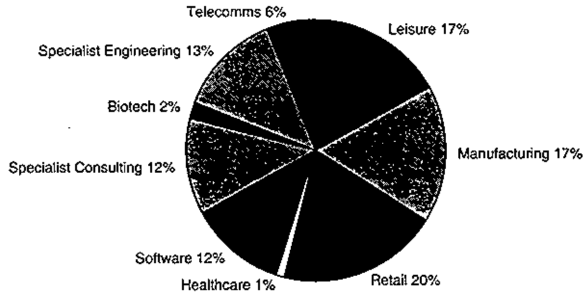
REGISTERED OFFICE	29 Queen Anne's Gate London SW1H 9BU (Registered in England, No 3139019)
MANAGER	Quester Capital Management Limited 29 Queen Anne's Gate London SW1H 9BU Tel: 0171 222 5472 Fax: 0171 222 5250 Regulated by IMRO
SECRETARY	Mrs Patricia Cox
STOCKBROKER	Beeson Gregory The Registry Royal Mint Court London EC3N 4EY
SOLICITORS	Travers Smith Braithwaite 10 Snow Hill London EC1A 2AL
AUDITORS	KPMG Audit Plc Chartered Accountants and Registered Auditor
VCT TAX ADVISER	KPMG
	both of 8 Salisbury Square London EC4Y 8BB
QUOTED AND FIXED INTEREST INVESTMENT ADVISER	Laing & Cruickshank Investment Management Limited Broadwalk House 5 Appold Street London EC2A 2DA
REGISTRARS	IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ Tel: 0181 478 8241 Fax: 0181 553 0784
BANKERS	Barclays Bank plc Pall Mall Corporate Group PO Box 15165 50 Pall Mall London SW1A 1QF

INVESTMENT MANAGER'S REPORT

VENTURE CAPITAL INVESTMENTS

We maintained good investment progress during the year ended 31 January 1998 and continued to build a well spread portfolio of investments. The number of investments has increased from seven to fourteen, with a further four made since the year end.

The following chart indicates the broad coverage of different business sectors achieved as at 31 January 1998.



This wide range of investment—the average cost of our investments is £678,715—meets the important objective of building a diversified portfolio. This portfolio is also predominantly individual to Quester VCT and 61% of the investments now completed are companies in which Quester VCT is the only venture capital trust investor.

The overall performance of the companies in which we have invested has been encouraging. This applies to all sections of the portfolio including the young high potential companies as well as the more mature companies, a number of which are management buy-outs or buy-ins, and the shares traded on AIM or listed on the main market.

Of the company's initial cash resources 20% is earmarked for investment in companies with particularly high growth potential. In this area, we have so far backed two software companies, **Aethos Communication Systems** and **C-Dilla**, an early stage biotechnology investment, **Axis Genetics** and Tim Waterstone's new retail company **Daisy & Tom**. Aethos Communication Systems achieved a 90 per cent increase in sales between 1996 and 1997 and continues to grow. C-Dilla has recently closed a marketing alliance with US Nasdaq quoted Macrovision involving an equity investment at a price approximately 8.5 times higher than the equity price paid by Quester VCT (resulting in an approximate £1 million mark-up in the value of the investment). Axis Genetics has progressed satisfactorily. Daisy & Tom is now scheduled to move from being a start-up company into becoming part of a major UK retail group including Waterstone's and Dillons booksellers, and HMV Music Retail, now that the various acquisitions from W H Smith and EMI recently announced in the Press have completed.

In the more mature investment portion of the portfolio, a striking feature is the 42 per cent aggregate increase during the year in the value of the four AIM-traded investments (one of which is now listed on the Official List). In the same period the AIM market index fell by 13 per cent. These four investments, **Deep Sea Leisure, Dragons Health Clubs, Shalibane** and **Sinclair Montrose** have all progressed positively. The five management buy-outs or buy-ins, have all progressed satisfactorily and we have been impressed by the high levels of commitment of the new management teams to achieve growth and develop these businesses. One small unquoted investment has not performed to expectations and has been marked down in value.

INVESTMENT MANAGER'S REPORT

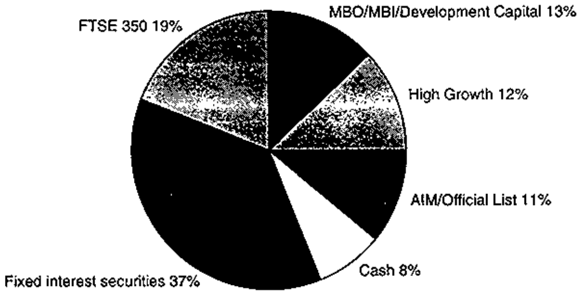
(continued)

LISTED INVESTMENTS

The amount invested in the FTSE-350 was increased from £1.6 million to £5.6 million during the period and achieved a total return, including dividends, equivalent to about 20% per annum allowing for the phasing of the investments made. It was a good period for UK equities generally and advantage was taken of these conditions. An encouraging start has been achieved including £139,000 net realised gains. We still believe that investing this part of the assets of the company in quoted equities will provide our shareholders with better returns over the medium term than are likely to be achieved in the gilt or bond markets. Our approach at this stage is also to seek a wide spread of investment and the £5.6m so far invested at cost covers 55 companies and 29 business sectors (as shown on page 10), with an average investment size of £112,260 at the current increased values.

SPREAD OF INVESTMENT

A wide spread of investment risk is being achieved by Quester VCT. The venture capital portfolio, which consisted of fourteen investments at the year end, has now increased to eighteen investments. The FTSE 350 portfolio has also been well spread. We consider that the overall balance of the whole portfolio is developing satisfactorily as illustrated below (based on valuations as at 31 January 1998):—



INCOME

Quester VCT achieved income and net operating profit for the year in line with our expectations. At this early stage, the certainty of our income flow has been very high with approximately 69% of the £1,385,771 income received derived from interest on bank deposits or fixed interest securities. This is the income from the cash awaiting investment in unquoted companies. It has therefore been relatively simple in a stable interest rate environment to predict our income and operating profit. This profile is now set to change. We are switching to investment in unquoted investments, some of which will offer no yield in the early years, particularly those investments largely in ordinary shares in companies with high potential at an early stage in their growth. Other investments may need time to establish a sufficient cash or profit flow to service interest on loan stocks or dividends. The income stream from these investments in the early years will therefore be much more difficult to predict.

The objective remains to build an attractive tax free income flow. However it is important to recognise that this income may fluctuate, particularly in the initial phase.

SUMMARY

At this relatively early stage we have achieved a well spread and balanced portfolio of investments and we are encouraged by the increase in the net asset value to date. We look forward with optimism and confidence to building the portfolio further this year.

A Holmes

Andrew Holmes
Managing Director, Quester Capital Management Limited
14 April 1998

INVESTMENT PORTFOLIO SUMMARY

as at 31 January 1998

	Industry Sector	*Cost £000*	*Valuation £000*	*% of portfolio by value*
Venture capital investments				
Aethos Communications Systems Limited	Telecomms	750	750	2.49
Armagard Limited	Manufacturing	750	750	2.49
Axis Genetics plc	Biotech	250	250	0.83
C-Dilla Limited	Software	500	1,479	4.92
Cotswold Camping Limited	Retail	767	767	2.55
Daisy & Tom Limited	Retail	1,556	1,556	5.18
Deep Sea Leisure plc[1]	Leisure	200	306	1.02
Dragons Health Clubs plc[1]	Leisure	950	1,781	5.92
Dycem Limited	Manufacturing	650	650	2.16
Pipeline Engineering & Supply Co Limited	Specialist Engineering	699	699	2.33
Shalibane plc[1]	Specialist Engineering	1,005	1,288	4.28
Sinclair Montrose Healthcare plc[2]	Healthcare	100	146	0.49
TCI Limited	Specialist Consulting	1,000	1,451	4.83
The Wentworth Wooden Jigsaw Co Limited	Manufacturing	325	90	0.30
		9,502	11,963	39.79
Listed fixed-interest investments				
£10,931,000 7.25% Treasury 1998		10,942	10,931	36.36
£1,000,000 6.75% Denmark 1998		998	995	3.31
		11,940	11,926	39.67
Listed equity investments[2]		5,578	6,174	20.54
Total investments		27,020	30,063	100.00
Net current assets			2,652	
Shareholders' funds			32,715	

[1]Shares traded on AIM.
[2]Shares listed on the Official List of the London Stock Exchange

INVESTMENT PORTFOLIO SUMMARY

(continued)

Listed equity investments		Cost £000	Valuation £000	% of portfolio by value
Banks, Retail	Barclays Bank £1 ords	90	181	0.60
	HSBC Holdings 75p ords	151	136	0.45
	National Westminster Bank £1 ords	105	156	0.52
	Royal Bank of Scotland Group 25p ords	111	174	0.58
Breweries, Pubs & Restaurants	Bass 25p ords	99	119	0.40
	Greenalls Group 25p ords	30	21	0.07
	Whitbread 25p ords	98	121	0.41
Building Materials & Merchants	Blue Circle Industries 50p ords	149	122	0.41
Chemicals	Elementis 25p ords	59	52	0.18
	ICI £1 ords	108	131	0.43
Construction	Bellway 12.5p ords	99	100	0.33
	Persimmon 10p ords	79	64	0.21
	Wimpey 25p ords	98	65	0.22
Distributors	Premier Farnell 5p ords	149	118	0.39
Diversified Industrials	Powell Duffryn 50p ords	101	109	0.36
	Tomkins 5p ords	99	121	0.40
Electricity	Energy Group 10p ords	100	138	0.46
	Southern Electric 0.1p ords	93	106	0.35
Electronic & Electrical Eqpt	General Electric Company 5p ords	103	107	0.36
Engineering	BBA Group 25p ords	102	97	0.32
	IMI 25p ords	100	103	0.34
	Rolls Royce 20p ords	102	82	0.27
Engineering, Vehicles	Laird Group 25p ords	88	78	0.26
Extractive Industries	Rio Tinto 10p (regd) ords	152	117	0.39
Food Producers	Booker 25p ords	113	76	0.26
	Unilever 1.25p ords	100	112	0.37
Gas Distribution	BG 1 2/15p ords	116	174	0.58
Insurance	Guardian Royal Exchange 5 p ords	89	123	0.41
	Sedgwick Group 10p ords	32	36	0.12
Leisure & Hotels	Stakis 10p ords	98	101	0.34
Life Assurance	Legal & General Group 10p ords	138	226	0.74
Media	Carlton Communications 5p ords	99	85	0.28
	EMI Group 14p ords	21	13	0.04
	Reed International 12.5p ords	99	101	0.34
Oil, Integrated	British Petroleum Co 25p ords	266	289	0.96
Other Financial	Provident Financial 10p ords	89	135	0.45
	Schroders £1 non v ords	98	139	0.46
Pharmaceuticals	Glaxo Welcome 25p ords	129	197	0.66
	Medeva 10p ords	140	98	0.33
	Smithkline Beecham 6.25p ords	102	105	0.35
	Zeneca Group 25p ords	62	85	0.28
Property	British Land Co 25p ords	145	191	0.64
	TBI 10p ords	45	50	0.17
Retailers, Food	Safeway 25p ords	109	113	0.38
Retailers, General	Arcadia Group 80p ords	29	31	0.10
	Debenhams 10p ords	53	55	0.17
	Thorn 5.75p ords	44	20	0.07
Support Services	W.S. Atkins 0.5p ords	50	68	0.23
Telecommunications	Cable & Wireless 25p ords	207	232	0.77
Tobacco	BAT Industries 25p ords	103	106	0.35
Transport	BAA £1 ords	99	89	0.30
	P&O £1 dfd stk	150	164	0.55
Water	Anglian Water £1 ords	91	111	0.37
	South West Water £1 ords	97	117	0.39
	United Utilities £1 ords	100	114	0.37
		5,578	6,174	20.54

VENTURE CAPITAL INVESTMENTS

A summary of venture capital investments made by Quester VCT plc up to 31 January 1998 is set out below, including a summary of most recent audited information where available. All the companies are incorporated in the UK.

Aethos Communication Systems Limited

ÆTHOS

Quester VCT invested in Aethos as part of a second equity round, other Quester-managed funds having led the first investment round in March 1996. Quester VCT invested alongside these funds and their original co-investors, Atlas and Schroder Ventures. Aethos develops and supplies software to the fast growing mobile telecomms market. Aethos's software enables mobile telecomms operators to plan their networks and then to provide value added services such as pre-paid solutions. The company is developing very encouragingly. The investment is held at cost. Gross income received during the year: £Nil

Parquest Venture Partnership, a UK limited partnership managed by Parquest Capital Management Limited (a fellow subsidiary of Quester Capital Management Limited) had invested £375,000 in Aethos at 31 January 1998.

Initial Investment:	*July 1997*
Cost:	*£750,000*
Valuation:	*£750,000*
Equity held:	*3.12%*

	Year ended 31 March	
	1997	*1996*
Revenue (£000)	7,172	3,765
Profit before tax (£000)	226	2
Retained profit / (loss) (£000)	66	(33)
Net Assets (£000)	925	866

Armagard Limited

ARMAGARD

Quester VCT supported the acquisition of Armagard by an experienced management team. Armagard designs and supplies environmental enclosures for PC's and workstations, enabling them to be placed in hostile environments such as the shop floor. This fits in with trends in computing towards using standard equipment and software, rather than proprietary ruggedised industrial computers, for data gathering and managing manufacturing processes. Gross income received during the year : £Nil

Initial Investment:	*December 1997*
Cost:	*£750,000*
Valuation:	*£750,000*
Equity held:	*18.33%*

	*Year ended 30 April**	
	1997	*1996*
Revenue (£000)	1,523	1,039
Profit before tax (£000)	435	(4)
Retained profit / (loss) (£000)	13	(4)
Net Assets (£000)	247	234

*Intek Electronics Limited, the company acquired by Armagard Limited.

VENTURE CAPITAL INVESTMENTS

(continued)

Axis Genetics plc

Quester participated in a syndicate in November 1997 to back this Cambridge-based biotechnology company which is developing a range of new vaccines and cancer therapeutics using its patented plant virus technology. Quester invested alongside 3i and ABN Amro Ventures in a £5.6 million second round funding. Since the funding round the company has acquired rights to valuable intellectual property which has broadened the basis of the business. Gross income received during the year : £Nil

Initial Investment:	*November 1997*
Cost:	*£250,000*
Valuation:	*£250,000*
Equity held:	*0.97%*

	Six month period ended 30 June 1997
Revenue (£000)	30
Loss before tax (£000)	(1,140)
Retained loss (£000)	(1,140)
Net Assets (£000)	3,527

C-Dilla Limited

Quester led a £1.5 million syndicate investing in C-Dilla in October 1996. C-Dilla develops and supplies encryption software which protects CD-Roms from piracy and enables software companies to market their products securely and in an innovative way. In February 1998, a further round of equity funding took place, with Macrovision Corporation, a world leader in technology for protecting video cassettes against piracy, injecting £2.1 million and entering into a marketing partnership with C-Dilla. The investment is valued at the price at which the Macrovision investment took place. Gross income received during the year: £Nil.

Initial Investment:	*October 1996*
Cost:	*£500,000*
Valuation:	*£1,478,574*
Equity held:	*10.69%*

	Year ended 31 December		
	1996	*1995*	*1994*
Revenue (£000)	446	466	142
Profit / (Loss) before tax (£000)	(236)	49	(152)
Retained Profit / (Loss) (£000)	(269)	48	(152)
Net assets / (liabilities) (£000)	1,295	(83)	(131)

Cotswold Camping Limited

Quester participated in a syndicate to fund the management buy-in of Cotswold by Hans Falkenberg in July 1997. Cotswold retails a wide range of outdoor clothing and equipment from eight stores throughout the UK. The first audited accounts will be for the period ended 30 September 1998. Gross income received during the year: £Nil

Initial Investment:	*July 1997*
Cost:	*£767,355*
Valuation:	*£767,355*
Equity held:	*10.56%*

VENTURE CAPITAL INVESTMENTS

(continued)

Daisy & Tom Limited

Daisy & Tom Limited is a new retail business led by Tim Waterstone. Quester previously backed Tim Waterstone in his development of Waterstone's the leading bookshop chain in the British Isles and one of the most successful new retail businesses of the 1980s. Waterstone's was successfully sold to W H Smith in 1989. The large, stylishly designed and fitted Daisy & Tom stores provide a comprehensive range of products for children to the age of ten, from books and toys to clothes and soda bars. The first two Daisy & Tom stores were opened in London and Manchester in 1997. It has been announced that the company is to be acquired by a new company, HMV Media Group plc, chaired by Tim Waterstone. The investment is valued at cost. Gross income received during the year: £2,412.

Parquest Venture Partnership, a UK limited partnership managed by Parquest Capital Management Limited (a fellow subsidiary of Quester Capital Management Limited) had invested £741,465 in Daisy & Tom Limited at 31 January 1998.

Initial Investment:	*August 1996*
Cost:	*£1,555,649*
Valuation:	*£1,555,649*
Equity held:	*13.7%*

	Year ended 31 May 1997
Revenue (£000)	Nil
Loss before tax (£000)	(1,138)
Retained loss (£000)	(1,248)
Net Assets (£000)	1,484

Deep-Sea Leisure plc

Deep-Sea Leisure operates Deep Sea World, an aquarium attraction close to the Forth Bridge in Fife. The company is due to open a new aquarium in Cheshire this summer. The company reported a net profit before taxation for the six months ended 31 August 1997 of £436,000 (1996: £372,000). The company's shares are traded on AIM.

The shares were issued to Quester VCT at 160p. The investment is valued at mid-market price on 31 January 1998 (245p). The share price on 14 April 1998 was 325p. Gross income received during the year: £Nil.

Initial Investment:	*October 1996*
Cost	*£200,000*
Valuation:	*£306,250*
Equity held:	*2%*

	Year ended 28/29 February	
	1997	1996
Revenue (£000)	2,251	2,078
Profit before tax (£000)	195	233
Retained profit (£000)	195	57
Net Assets (£000)	4,575	1,207

VENTURE CAPITAL INVESTMENTS

(continued)

Dragons Health Clubs plc

Dragons is a chain of health and leisure clubs originally backed by Quester-managed funds in 1991. Quester VCT invested in April 1997 just before the company was admitted to AIM. The company now owns ten clubs offering a range of facilities including gymnasium, aerobics, swimming pool, squash courts, therapy rooms, creche and bar/restaurants. Since admission to AIM, the company has made good progress. The shares were trading at 187.5p as at 31st January 1998, compared to the admission price of 100p. The share price on 14 April 1998 was 210p. Gross dividend income received during the year: £7,719

Initial Investment:	*April 1997*
Cost:	*£950,000*
Valuation:	*£1,781,250*
Equity held:	*9.5%*

Parquest Venture Partnership, a UK limited partnership managed by Parquest Capital Management Limited (a fellow subsidiary of Quester Capital Management Limited had invested £333,920 in Dragons Health Clubs at 31 January 1998.

Quester Growth Fund, an institutional fund managed by Quester Capital Management Limited had invested £119,257 in Dragons Health Clubs at 31 January 1998.

	Year ended 31st July	
	1997	*1996*
Revenue (£000)	4,091	2,971
Profit before tax (£000)	606	300
Retained profit (£000)	533	300
Net Assets (£000)	10,965	5,853

Dycem Limited

Quester financed the acquisition of Dycem, a long established manufacturer and supplier of "non slip" and "contamination control" mats for world-wide application in medical and clean zone production areas particularly in the pharmaceutical and electronics industries. Progress to date has been satisfactory. The first relevant audited accounts will be for the period ended 31 December 1997. The investment is valued at cost. Gross dividend income received during the year: £78,750.

Initial Investment:	*October 1996*
Cost:	*£650,000*
Valuation:	*£650,000*
Equity held:	*30%*

Pipeline Engineering & Supply Company Limited

Quester financed the acquisition of Pipeline Engineering & Supply Company Limited, a specialist oil and gas pipeline pigging system manufacturer, from its listed parent company, Bullough plc. The first relevant audited accounts will be for the period ended 30 April 1998.

Gross dividend income received during the year : £ 40,625

Initial Investment:	*April 1997*
Cost:	*£699,000*
Valuation:	*£699,000*
Equity held:	*49%*

VENTURE CAPITAL INVESTMENTS

(continued)

Shalibane plc

Shalibane is a manufacturer of specialist engineering products for the European automobile industry. Shalibane has developed a number of specialised products contributing to the improved environmental performance, fuel efficiency and enhanced cooling systems of a range of new engines. The company, whose shares are traded on AIM announced half year results to 30 June 1997 in October 1997. These indicate profit before taxation up 113% to £269,000. During the period the company acquired BWL Component Engineering Limited for a maximum consideration of £3.6m. BWL's core business is the manufacture of fluid systems components for the UK automotive industry. This is seen as an excellent opportunity to expand the group's business.

480,000 shares were initially issued to Quester VCT at 125p. A further 245,454 shares were issued to Quester VCT at 165p during the period. The investment is valued at mid-market price on 31 January 1998 (177.5p). The share price on 14 April 1998 was 177.5p. Gross dividend income received during the year: £19,901.

Initial investment:	*September 1996*
Cost:	*£1,004,999*
Valuation:	*£1,287,681*
Equity held:	*10.2%*

	Year ended 31 December		
	1996	*1995*	*1994*
Revenue (£000)	7,743	7,202	6,662
Profit before tax (£000)	406	292	306
Retained profit (£000)	276	187	224
Net Assets (£000)	4,739	1,765	1,309

Sinclair Montrose Healthcare plc

Sinclair Montrose Healthcare supplies staff to the UK health industry either on a "staff bank" or agency basis. Quester's investment was made at the time of the company's listing on AIM when £3 million was raised to expand the company's business. The company announced half year results to 30th June 1997 in September 1997. These indicated a profit before taxation of £203,000. During the period the company acquired the Premier Group, an employment agency. The company's shares are now listed on the Official List of the London Stock Exchange.

The shares were issued to Quester VCT at 140p. The investment is valued at mid-market price on 31 January 1998 (205p). The share price on 14 April 1998 was 224p. Gross income received during the year: £Nil.

Initial Investment:	*June 1996*
Cost:	*£100,000*
Valuation:	*£146,429*
Equity held:	*0.6%*

	Eleven month period ended 31 December 1996
Revenue (£000)	6,084
Profit before tax (£000)	892
Retained profit (£000)	584
Net Assets (£000)	1,564

VENTURE CAPITAL INVESTMENTS

(continued)

Transportation Consultants International Limited (formerly BR Projects Limited)

TCI TRANSPORTATION CONSULTANTS INTERNATIONAL

Quester financed the acquisition of a railway project management and consultancy division of British Rail as part of the British Rail privatisation programme. The company has subsequently enlarged the scope of its operations by purchasing two further related businesses and early progress has been encouraging. The investment has been revalued to reflect the increased value of the company as indicated by a third party transaction. This is in accordance with our normal accounting policy. First audited accounts will be for the period to 30 June 1997. Gross income received during the year: £119,565.

Initial Investment:	*July 1996*
Cost:	*£1,000,000*
Valuation:	*£1,450,614*
Equity held:	*12.5% (Quester also has an option to subscribe for a further 2.5%)*

The Wentworth Wooden Jigsaw Company Limited

the WENTWORTH WOODEN JIGSAW company limited

Wentworth has developed a range of high quality laser-cut wooden puzzles which are being sold in leading attractions such as Chatsworth House and the Victoria and Albert Museum. The investment has been down valued in accordance with a recent third party transaction in the shares of this company. The company's sales have grown more slowly than expected and consequently the business had to be refinanced earlier this year. Quester has supported the management throughout this difficult period. The first audited accounts are scheduled to be for the period to 30 April 1998. Gross income received during the year: £1,199

Initial Investment:	*March 1997*
Cost:	*£325,000*
Valuation:	*£90,036*
Equity held:	*30%*

CORPORATE GOVERNANCE

The directors consider that the company has throughout the year under review complied in all material respects with the Code of Best Practice contained in the Cadbury Committee's report on The Financial Aspects of Corporate Governance. The Company's auditors, KPMG Audit Plc have reviewed this statement in accordance with guidance issued by the Auditing Practices Board and their report is shown on page 23.

The Company has a board of six non-executive directors, four of whom are independent of the Company's investment manager. The Board meets on a regular quarterly basis and on other occasions as required, to review the progress of the Company and consider any appropriate recommendations by the Manager. In addition the Board has appointed an Audit Committee to deal with matters relating to audit, financial reporting and internal control systems. The Audit Committee undertakes a periodic review of the terms of the management agreement with Quester Capital Management Limited.

We have complied with the Cadbury Code of Best Practice except for the requirement that non executive directors be appointed for a specified term. A Special Resolution is to be proposed at the forthcoming Annual General Meeting in order to approve an amendment to the Articles of Association to require the retirement of directors by rotation.

Internal financial control

The directors have overall responsibility for the Company's system of internal financial controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets safeguarded and financial information used within the business and for publication is accurate and reliable. The directors have reviewed the effectiveness of the system of internal financial control. However, such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

Responsibility for accounting, secretarial services and custody of documents of title relating to investments has been contractually delegated to Quester Capital Management Limited under the management agreement. Quester Capital Management Limited, which is regulated by IMRO, has established its own system of internal controls in relation to these matters, on which it has reported to the Board. The Board regularly reviews financial results and investment performance.

Going concern

The directors believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

DIRECTORS' REPORT

The directors have pleasure in submitting their Annual Report together with the audited financial statements of the Company for the year ended 31 January 1998.

Activities and Status

The principal activity of the Company during the year was the making of equity and loan investments, mainly in unquoted companies. The Company is an investment company as defined in Section 266 of the Companies Act 1985 and has been granted provisional approval by the Inland Revenue as a Venture Capital Trust. Its shares have been listed on the London Stock Exchange since 3 April 1996.

The directors have managed the affairs of the Company with the intention that it will qualify for approval by the Inland Revenue as a Venture Capital Trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988. The directors consider that the Company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Act.

The directors are required by the Articles of Association to convene an extraordinary general meeting of the company in 2003, and, if applicable, at five yearly intervals thereafter, to consider and vote on a special resolution that the company be wound up voluntarily.

Review of the Business

The Chairman's Statement and Investment Manager's Report on pages 3 and 7 respectively include a review of developments during the year and of future prospects.

Results and Dividend

	Year ended 31 January 1998 £
Net revenue attributable to shareholders	697,782
Appropriated as follows:	
Interim net dividend paid – 0.7875p per share	239,570
Final net dividend proposed– 1.5p per share	456,068
Retained in revenue reserve	2,144
	697,782

The Board recommends a final net dividend of 1.5p per share which, together with the interim already paid, makes a total of 2.2875p net for the year ended 31 January 1998, equivalent to a gross dividend of 2.8594p per share. If approved, the recommended final dividend will be paid on 14 May 1998 to shareholders on the register at close of business on 24 April 1998 for shares issued prior to 1 February 1998. Dividends are paid gross to all shareholders who are eligible, representing tax free income in their hands.

Issue and Buy-Back of Shares

Pursuant to the Offers for Subscription announced in January 1997, the Company issued 15,334,593 Ordinary Shares and raised net proceeds of £15,279,039. A further 1,516,926 Ordinary Shares were issued following private placings on 30 June 1997, raising net proceeds of £1,611,948. The Company bought back 61,014 Ordinary Shares (representing 0.2% of the issued share capital and having a nominal value of £3,051) during the year at a cost of £59,093 in the interests of the Company. These shares were subsequently cancelled.

Directors

The directors of the Company during the year and their interests in the issued Ordinary Shares of 5p of the Company, at 31 January 1998 and at the date of this report were as follows:

	31 January 1998	*14 April 1998*	*31 January 1997*
B T R Scruby (Chairman)	30,000	30,000	30,000
S M Bakewell	20,000	20,000	10,000
A P G Holmes	65,000	65,000	40,000
R J Prest	100,000	100,000	69,000
T P Sooke	22,500	22,500	10,000
J A Spooner	65,000	65,000	40,000

All of the directors' share interests shown above are held beneficially.

Mr A P G Holmes and Mr J A Spooner are directors and shareholders of Quester Limited (the indirect parent company of Quester Capital Management Limited). Quester Limited may become entitled to be granted options to subscribe for shares under the Subscription Share Option Agreement referred to in Note 13 to the financial statements.

Each of the directors has entered into an agreement to act as a non-executive director of the Company with effect from 1 January 1996, with no minimum period of office specified. At the date of their respective appointments none of the directors held any shares in the Company.

Save for the Subscription Share Option Agreement referred to above and the Management Agreement referred to below, no contracts were subsisting during or at the end of the year in which any director was materially interested. Mr J A Spooner has beneficially invested in 5,000 ordinary shares in Shalibane plc and 3,520 Ordinary Shares in Dragons Health Clubs plc. Mr A P G Holmes has beneficially invested in 3,520 Ordinary Shares in Dragons Health Clubs plc. Mr S H V Acland, a director of Quester Capital Management Limited, has invested in 5,000 Ordinary Shares in Dragons Health Clubs plc.

The market price of Quester VCT shares at 31 January 1998 was 102 pence per share. The market price per share ranged from 91.5p to 103p during the year.

Creditor Payment Policy

The Company's payment policy for the forthcoming year is to ensure settlement of supplier invoices in accordance with their standard terms. At 31 January 1998 there were 31 days' billings from the suppliers of services outstanding.

Management

Quester Capital Management Limited has acted as investment manager to the Company since April 1996. The principal terms of the Company's Management Agreement with Quester Capital Management Limited are set out in the Note 2 to the financial statements.

Mr A P G Holmes and Mr J A Spooner are executive directors of Quester Capital Management Limited.

Substantial Shareholdings

So far as the directors are aware, there are no individual shareholdings representing 3% or more of the company's issued share capital at the date of this report.

Annual General Meeting

Other than the items of ordinary business to be dealt with at the forthcoming Annual General Meeting there will be four items of special business.

At the Annual General Meeting of the Company held on 19 May 1997 the directors were empowered to allot shares for cash otherwise than in accordance with the statutory pre-emption rights, which power expires unless renewed at the conclusion of the forthcoming Annual General Meeting of the Company. Since in certain circumstances it may be in the best interests of the Company to allot shares for cash otherwise than pro rata to existing shareholders, the directors consider that is appropriate to renew the power at the forthcoming Annual General Meeting. A special resolution will accordingly be proposed giving the directors power to allot equity securities for cash in connection with a rights issue and in other cases up to an aggregate nominal amount of £152,023, which is equivalent to approximately 10 per cent of the present issued ordinary share capital of the Company. This power will expire at the conclusion of the next Annual General Meeting of the Company or the date which is fifteen months from the date of resolution whichever is the earlier.

At the Annual General Meeting held on 19 May 1997 the Company was authorised to make market purchases of its securities which will expire at the conclusion of the forthcoming Annual General Meeting. It is therefore proposed that the authority be renewed to enable the Company to purchase up to 3,040,455 ordinary shares (representing approximately 10 per cent of the Company's current ordinary share capital). A purchase under this authority cannot be made at a price exceeding 105 per cent of the average middle market price shown in the Official List of the London Stock Exchange for the ten business days preceding the day on which the purchase is made. The authority will expire at the next Annual General Meeting of the Company or the date which is fifteen months from the date of the resolution whichever is the earlier. This power will be exercised only if, in the opinion of the directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased pursuant to this authority would be cancelled.

A third Special Resolution will be proposed to make an amendment to the Company's Articles of Association to permit the payment of dividends through the BACS system, in appropriate circumstances.

A fourth Special Resolution will be proposed to approve an amendment to the Company's Articles of Association to require the retirement of Directors by rotation in order to comply with the Cadbury Code of Best Practice.

Auditors

KPMG Audit Plc are willing to continue in office and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Patricia Cox

Mrs Patricia Cox
Secretary

14 April 1998

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 at the end of the financial year and of the profit or loss for that year. 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;
- 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 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.

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

TO THE MEMBERS OF QUESTER VCT plc

We have audited the financial statements on pages 24 to 34.

Respective responsibilities of Directors and Auditors

As described on page 21, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 of 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 by 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 Company's affairs as at 31 January 1998 and of the total return of the Company 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
London

14 April 1998

REVIEW REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 17 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control and going concern on page 17, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 17 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit PLC

KPMG Audit Plc
Chartered Accountants
London

14 April 1998

STATEMENT OF TOTAL RETURN
(incorporating the Revenue Account)

for the year ended 31 January 1998

	Notes	*Year ended 31 January 1998* Revenue £000	Capital £000	Total £000	*58 weeks ended 31 January 1997* Revenue £000	Capital £000	Total £000
Gains on investments		—	2,882	2,882	—	338	338
Income	1	1,386	—	1,386	567	—	567
Investment management fee	2	(283)	(282)	(565)	(81)	(82)	(163)
Other expenses	3	(153)	—	(153)	(134)	—	(134)
Return on ordinary activities before tax		950	2,600	3,550	352	256	608
Tax on ordinary activities	5	(252)	43	(209)	(84)	11	(73)
Return on ordinary activities after tax		698	2,643	3,341	268	267	535
Dividends	6	(696)	—	(696)	(265)	—	(265)
Transfer to reserves		2	2,643	2,645	3	267	270
Return per share	7	2.59p	9.82p	12.41p	2.83p	2.82p	5.65p

Notes

The revenue column of this statement is the profit and loss account of the Company.

The accompanying notes are an integral part of this statement.

All revenue and capital items in the above statement derive from continuing operations.

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

BALANCE SHEET

as at 31 January 1998

	Notes	*1998* *£000*	*1997* *£000*
Fixed assets			
Investments	8	30,063	12,150
Current assets			
Debtors	11	871	459
Cash at bank		2,730	1,010
		3,601	1,469
Creditors (amounts falling due within one year)	12	(949)	(381)
Net current assets		2,652	1,088
Net assets		32,715	13,238
Capital and reserves			
Called-up equity share capital	13	1,520	681
Share premium	14	28,279	12,287
Capital reserve—realised	14	(133)	(34)
—unrealised	14	3,044	301
Revenue reserve	14	5	3
Total equity shareholders' funds		32,715	13,238
Net asset value per share	15	107.6p	97.2p

The financial statements on pages 24 to 34 were approved by the directors on 14 April 1998 and are signed on their behalf by:

Tom Scruby
Chairman

A P G Holmes
Director

CASH FLOW STATEMENT

	Year ended 31 January 1998 £000	58 weeks ended 31 January 1997 £000
Reconciliation of operating profit to net cash inflow from operating activities		
Net revenue from ordinary activities before tax	950	351
Increase in debtors	(347)	(428)
Increase in creditors	127	138
Tax withheld at source on franked investment income	(83)	(25)
Management fees charged to capital reserve	(282)	(81)
Amortisation of gilts	154	178
Cash inflow from operating activities	519	133
Taxation		
Advance corporation tax paid	(35)	(6)
Capital expenditure and financial investment		
Purchase of investments	(32,389)	(12,412)
Sale / redemption of investments	17,079	422
Loan notes repaid	125	—
	(15,185)	(11,990)
Equity dividends paid	(410)	(95)
Financing		
Issue of ordinary shares	17,724	13,633
Share issue expenses	(834)	(665)
Buy back of shares	(59)	—
	16,831	12,968
Increase in cash for the period	1,720	1,010
Reconciliation of net cash flow to movement in net funds		
Increase in cash for the period	1,720	1,010
Net funds at the start of the period	1,010	—
Net funds at the end of the period	2,730	1,010

ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year is set out below:

a Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial statements of investment trust companies".

b Investments

Quoted investments, including fixed interest securities and investments traded on AIM are stated at middle market prices. Unquoted investments are stated at directors' valuation. Investments in unquoted companies are valued in accordance with the British Venture Capital Association (BVCA) guidelines. The directors' policy in valuing unquoted investments is to carry them at cost except in the following circumstances:

- where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made as appropriate in bands of 25%.
- where a company is well-established and profitable, the shares may be valued by applying a suitable price-earnings ratio to that company's historic post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted to reflect lack of marketability. Unquoted investments will not normally be revalued upwards for a period of at least twelve months from the date of acquisition.
- where a value is indicated by a material arms-length transaction by a third party in the shares of a company.

Certain venture capital investments deemed to be associated undertakings are carried at cost or valuation in accordance with the Company's normal accounting policy and Financial Reporting Standard 9.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve.

c Income

Investment income includes the imputed tax credit on franked investment income.

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

d Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of:

- expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate, and
- the investment management fee, which has been charged 50% to the revenue account and 50% to realised capital reserve to reflect an element which is, in the directors' opinion, attributable to the maintenance or enhancement of the value of the Company's investments.

e Taxation

Advance corporation tax payable on dividends paid or provided for in the period is written off unless recoverability is considered to be reasonably certain and foreseeable.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that a liability will crystallise.

1 Income

	Year ended 31 January 1998 £000	58 weeks ended 31 January 1997 £000
Franked investment income		
Unlisted companies	267	80
Listed companies	149	44
Interest receivable		
Fixed interest securities	711	222
Bank deposits	244	221
Loans to unlisted companies	13	—
Sundry income	2	—
	1,386	567

2 Investment management fee

	Year ended 31 January 1998		58 weeks ended 31 January 1997	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Investment management fee	266	265	75	76
Irrecoverable VAT	17	17	6	6
	283	282	81	82

Quester Capital Management Limited provides investment management services to the Company under an agreement dated 22 February 1996 as amended by a Supplemental Deed dated 16 January 1997.

Quester Capital Management Limited is a wholly owned subsidiary of Querist Investments Limited, a company in which Mr A P G Holmes and Mr J A Spooner are beneficial shareholders.

Mr A P G Holmes and Mr J A Spooner are executive directors of Quester Capital Management Limited.

Quester Capital Management Limited received a management fee, payable quarterly in arrears, at the rate of 2% for the year ended 31 January 1998 (2.5% with effect from 1 February 1998).

Quester Capital Management Limited also procures the provision of administrative and secretarial services to the Company for which it is entitled to a fee of £35,000 per annum (linked to the movement in the RPI), which is included in other expenses (Note 3).

The total fees paid or payable to Quester Capital Management Limited for the year amounted to £531,175 (excluding VAT) of which £151,377 was outstanding at the year end.

3 Other expenses

	Year ended 31 January 1998 £000	58 weeks ended 31 January 1997 £000
Administrative and secretarial services	36	21
Directors' remuneration (Note 4)	45	37
Auditors' remuneration — audit services	17	15
— non audit services	10	4
Legal and professional expenses	4	20
Irrecoverable VAT	17	17
Other expenses	24	20
	153	134

Fees paid to the auditors and tax advisors in relation to share issues amounting to £3,720 have been charged to the share premium account.

4 Directors' remuneration

	Year ended 31 January 1998 £000	58 weeks ended 31 January 1997 £000
Fees paid to directors	20	16
Amounts paid to third parties in consideration for the services of directors	25	21
	45	37

The total fees paid in respect of individual directors were as follows:

	£	£
B T R Scruby (Chairman)	15,000	16,250
S M Bakewell	10,000	10,833
A P G Holmes	—	—
R J Prest	10,000	10,833
T P Sooke	10,000	10,833
J A Spooner	—	—

None of the directors received any other remuneration or benefit during the period. Mr A P G Holmes and Mr J A Spooner have waived their entitlement to directors' fees for the period ending 31 January 1999.

Mr A P G Holmes and Mr J A Spooner are potential beneficiaries under the Subscription Share Option Agreement referred to in Note 13.

5 Tax on ordinary activities

	Year ended 31 January 1998		58 weeks ended 31 January 1997	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Tax attributable to franked investment income	(83)	—	(25)	—
Corporation tax at 31.3% (1997: 33%)	(169)	88	(59)	21
ACT written off	—	(45)	—	(10)
	(252)	43	(84)	11

6 Dividends

	Year ended 31 January 1998 £000	58 weeks ended 31 January 1997 £000
Interim paid net – 0.7875p per share (1997: 0.75p)	240	95
Final proposed net – 1.5p per share (1997: 1.25p)	456	170
	696	265

7 Return per share

The revenue return per share is based on net revenue from ordinary activities after tax of £697,782 (preceding period £268,392) and on 26,920,356 shares (preceding period 9,489,887 shares), being the weighted average number of shares in issue during the year.

The capital return per share is based on net realised and unrealised capital gains for the year of £2,643,636 (preceding period £267,595) and on 26,920,356 (preceding period 9,489,887) shares, being the weighted average number of shares in issue during the year.

8 Investments

	31 January 1998 £000	*31 January 1997 £000*
AIM traded investments	3,375	1,121
Quoted investments	18,247	8,379
Unquoted investments	8,441	2,650
	30,063	12,150

	31 January 1998 £000	*31 January 1997 £000*
Quoted investments consist of:		
—fixed interest securities	11,926	6,652
—equity shares	6,321	1,727
	18,247	8,379

Movements in investments during the year are summarised as follows:

	AIM traded £000	*Quoted £000*	*Unquoted £000*	*Total £000*
Cost at 1 February 1997	900	8,299	2,650	11,849
Unrealised appreciation at 1 February 1997	221	80	—	301
Valuation at 1 February 1997	1,121	8,379	2,650	12,150
Movements in the period:				
Purchases at cost	1,355	26,312	4,722	32,389
Disposals — proceeds	—	(17,079)	(125)	(17,204)
— realised losses on disposal	—	(4)	—	(4)
— realised gains on disposal	—	143	—	143
Transfer — book cost	(100)	100	—	—
— unrealised appreciation	(56)	56	—	—
Increase in unrealised appreciation	1,055	494	1,194	2,743
Increase in amortisation	—	(154)	—	(154)
Valuation at 31 January 1998	3,375	18,247	8,441	30,063
Book cost at 31 January 1998	2,155	17,617	7,247	27,019
Unrealised appreciation at 31 January 1998	1,220	630	1,194	3,044
	3,375	18,247	8,441	30,063

All investments traded on AIM consist of equity shares.

8 Investments—(continued)

The overall gain on investments for the period shown in the Statement of Total Return on page 24 is analysed as follows:

	Year ended 31 January 1998 £000	*58 weeks ended 31 January 1997 £000*
Net realised gains on disposal	139	37
Increase in unrealised appreciation	2,743	301
	2,882	338

9 Unquoted investments

The cost and carrying value of investments in unquoted companies held at 31 January 1998 are shown below:

	31 January 1998		*31 January 1997*	
	Cost £000	*Carrying value £000*	*Cost £000*	*Carrying value £000*
Aethos Communication Systems Limited				
Ordinary Shares	750	750	—	—
Armagard Limited				
Ordinary Shares	174	174	—	—
Cumulative Redeemable Preference Shares	200	200	—	—
Redeemable Loan Notes	376	376	—	—
	750	750	—	—
Axis Genetics plc				
Ordinary Shares	250	250	—	—
C-Dilla Limited				
Ordinary Shares	167	1,146	167	167
Cumulative Redeemable Preference Shares	333	333	333	333
	500	1,479	500	500
Cotswold Camping Limited				
Ordinary Shares	92	92	—	—
Unsecured Loan Stock	675	675	—	—
	767	767	—	—
Daisy & Tom Limited				
Ordinary Shares	30	30	8	8
Cumulative Redeemable Preference Shares	1,320	1,320	367	367
Unsecured loan stock	206	206	—	—
	1,556	1,556	375	375
Dycem Limited				
Ordinary Shares	20	20	20	20
Cumulative Redeemable Preference Shares	630	630	630	630
	650	650	650	650

9 Unquoted investments—(continued)

	31 January 1998 Cost £000	31 January 1998 Carrying value £000	31 January 1997 Cost £000	31 January 1997 Carrying value £000
Pipeline Engineering & Supply Company Limited				
Ordinary Shares	49	49	—	—
Cumulative Redeemable Preference Shares	650	650	—	—
	699	699	—	—
TCI Limited (formerly BR Projects Limited)				
Ordinary Shares	43	417	43	43
Cumulative Redeemable Preference Shares	957	957	957	957
Unsecured Loan Stock	—	—	125	125
Option to subscribe for 2.5% of equity	—	77	—	—
	1,000	1,451	1,125	1,125
Wentworth Wooden Jigsaw Company Limited				
Ordinary Shares	325	90	—	—

Additional information relating to investments in unquoted companies is given on pages 11 to 16. There were no disposals of unquoted investments during the year. £125,000 of loan stock in TCI Limited was repaid on due date during the year. At 31 January 1998 there were commitments totalling £232,645 (1997: £375,000) in respect of investments approved by the Manager but not yet completed.

10 Significant interests

Details of shareholdings in those companies where the company's holding at 31 January 1998 represents (1) more than 10% of the allotted equity share capital of any class, (2) more than 10% of the total allotted share capital or (3) more than 10% of the assets of the company itself, are given below. All of the companies named are incorporated in England & Wales.

Company	*Class of shares*	*Number held*	*Proportion of class held*
Armagard Limited	"B" Ordinary Shares (£1)	28,948	18.3%
	Redeemable Preference (£1)	200,000	50.00%
C-Dilla Limited	"D" Ordinary Shares (10p)	166,666	33.33%
	Redeemable Preference (£1)	333,334	33.33%
Cotswold Camping Limited	"A" Ordinary Shares (£1)	306,057	17.22%
Daisy & Tom Limited	"C" Ordinary Shares (£1)	29,852	13.70%
	Redeemable Preference (£1)	1,320,148	17.8%
Dycem Limited	Ordinary Shares (10p)	20,000	30.00%
	Redeemable Preference (10p)	630,000	100.00%
Pipeline Engineering & Supply Company Limited	Ordinary Shares (£1)	49,000	49.00%
	Redeemable Preference (£1)	650,000	100.00%
Shalibane plc	Ordinary Shares (5p)	725,454	10.20%
TCI Limited (formerly BR Projects Limited)	Ordinary Shares (10p)	434,783	12.5%
	Redeemable Preference (10p)	956,521	100%
Wentworth Wooden Jigsaw Company Limited	Ordinary Shares (10p)	900,365	30.08%

NOTES TO THE FINANCIAL STATEMENTS

(continued)

11 Debtors

	31 January 1998 £000	31 January 1997 £000
Prepayments and accrued income	337	309
Advance corporation tax recoverable	96	31
Other debtors	438	119
	871	459

Included in other debtors is an advance of £100,000 (1997: £45,000) to Quester Capital Management Limited pursuant to the investment management agreement referred to in note 2 above.

12 Creditors (amounts falling due within one year)

	31 January 1998 £000	31 January 1997 £000
Trade creditors and accruals	265	138
Corporation tax payable	118	38
Advance corporation tax payable	110	35
Proposed dividend	456	170
	949	381

13 Called-up equity share capital

	31 January 1998 £000	31 January 1997 £000
Authorised:		
37,100,000 (1997: 20,000,000) ordinary shares of 5p	1,855	1,000
Allotted, issued and fully paid:		
30,404,555 (1997: 13,614,050) ordinary shares of 5p	1,520	681

During the year the Company issued 16,851,519 ordinary shares, with an aggregate nominal value of £842,575, for a total consideration of £17,724,433.

During the year the Company bought in 61,014 shares for cancellation at a cost of £59,093 in the interests of the Company.

Under the terms of a Subscription Share Option Agreement dated 22 February 1996 as amended by a Supplemental Deed dated 16 January 1997, Quester Limited will become entitled to subscribe for new ordinary shares of Quester VCT at par provided aggregate gross dividends of at least 40p per share have been declared and paid and the net asset value per share plus the aggregate gross dividends paid on each share are at least 140p in 2001, increasing by 4p per year up to 164p in 2007. The number of new shares to be issued will be calculated according to a formula contained in the Agreement such that the benefit to Quester Limited will be equivalent to 10% of the total return to original subscribers in excess of the hurdle rate of return as described above.

Quester Limited is a wholly owned subsidiary of Querist Investments Limited, a company in which Mr A P G Holmes and Mr J A Spooner are beneficial shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

14 Reserves

	Share premium £000	*Capital reserve realised £000*	*Capital reserve unrealised £000*	*Revenue reserve £000*
At 1 February 1997	12,287	(34)	301	3
Share issues	16,882	—	—	—
Shares bought back	(56)	—	—	—
Expenses of share issues and buy back	(834)	—	—	—
Realised on disposals of investments	—	139	—	—
Management fee net of associated taxation	—	(193)	—	—
Net increase in unrealised appreciation	—	—	2,743	—
Net revenue retained for the period	—	—	—	2
ACT written off	—	(45)	—	—
At 31 January 1998	28,279	(133)	3,044	5

15 Net asset value per share

The calculation of net asset value per share as at 31 January 1998 is based on net assets of £32,715,072 (1997: 13,237,939) divided by the 30,404,555 (1997: 13,614,050) ordinary shares in issue at that date.

16 Reconciliation of movements in equity shareholders' funds

	Year ended 31 January 1998 £000
At 1 February 1997	13,238
Net proceeds of share issues	16,891
Shares bought back	(59)
Total return after tax and dividends	2,645
At 31 January 1998	32,715

17 Post Balance Sheet Events

Since 31 January 1998 Quester VCT plc has made four new venture capital investments and two follow-on investments as set out below:

	£000
Acedes Gear Tools Limited	750
Advanced Valve Technology Limited	78
Artisan Software Tools Limited	569
Cotswold Camping Limited	74
Harleyco Limited	678
International Resources Group Limited	400
	2,549

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the second Annual General Meeting of Quester VCT plc will be held at Dartmouth House, 37 Charles Street, London W1X 8AB at 11.30 am on 12 May 1998 for the following purposes:

As ordinary business

1 To receive, consider and adopt the financial statements for the year ended 31 January 1998 and the directors' and auditors' reports thereon.

2 To declare a final dividend of 1.5p per share in respect of the year ended 31 January 1998.

3 To re-appoint KPMG Audit Plc as auditors of the company and to authorise the directors to fix their remuneration.

As special business

To consider and, if thought fit, to pass the following resolutions as special resolutions:

4 THAT in accordance with section 95 of the Companies Act 1985 ("the Act") the directors be and are empowered to allot equity securities (as defined in sub-section (2) of section 94 of the Act) for cash as if sub-section (1) of section 89 of the Act did not apply at any time or times to such allotment, which power shall be limited to:

4.1 the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory;

4.2 the allotment of equity securities (otherwise than pursuant to sub-paragraph 4.1 above) up to an aggregate nominal value not exceeding £152,023;

and this power, unless renewed, shall expire at the end of the Annual General Meeting of the Company to be held in 1999 or, if earlier, on 11 August 1999 but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

5 THAT the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the company ("Ordinary Shares") provided that:

5.1 the maximum number Ordinary Shares authorised to be purchased is 3,040,455;

5.2 the minimum price which may be paid for Ordinary Shares is 5p per Ordinary Share;

5.3 the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market prices shown in the quotations for an Ordinary Share in the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the Ordinary Share is purchased;

5.4 the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 1999 or within 12 months from the date of passing this resolution, whichever is earlier; and

5.5 the Company may make a contract or contracts to purchase its Ordinary Shares under the authority hereby given conferred prior to the expiry of such authority which would or might be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

NOTICE OF ANNUAL GENERAL MEETING

(continued)

6 THAT, in accordance with Section 9 of the Companies Act 1985, the Articles of Association of the Company be altered by the deletion of the existing Article 140 and the substitution of the following as a new Article 140:

"140. Any dividend or other moneys payable in respect of a share may be paid by cheque, money order or warrant sent through the post to the address in the register of, or by direct debit or bank transfer to, the member or person entitled thereto, and in the case of joint holders to the joint holder who is first named in the register, or to such person and to such other address as the holder or joint holders may in writing direct. Every such cheque, money order or warrant shall be made payable to the order of the person to whom it is sent and every such cheque, money order, warrant, direct debit electronic transfer or bank transfer shall be sent or made at the risk of the member or other person entitled thereto, and payment of the cheque, money order or warrant or, as the case may be, the making of the direct debit electronic transfer or bank transfer shall be a good discharge to the Company. In respect of shares in uncertificated form, the Company may also pay any such dividend, interest or other monies by such other method as the Directors may in their absolute discretion think fit (subject always to the facilities and requirements of the relevant system concerned) and the making of such a payment by such method shall be a good discharge to the Company. Without prejudice to the generality of the foregoing, such payment method may include the sending by the Company or by any person on its behalf of an instruction to the operator of the relevant system to credit the cash memorandum account of the holder or joint holders, or of such person as the holder or joint holders may direct. Where an authority in that behalf shall have been received by the Company in such form as the Company shall consider sufficient the Company may pay the amount distributable to such member or person to his bankers or other agents and payment in accordance with such authority shall constitute a good discharge therefor."

7 THAT the Articles of Association of the Company be altered by the deletion of the existing article 87 and the substitution therefor of the following new article 87:

"87.1 At each annual general meeting one-third of the Directors who are subject to retirement by rotation or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. If there is only one Director who is subject to retirement by rotation, he shall retire.

87.2 The Directors to retire by rotation shall be those who have been longest in office since their last election; as between persons who became or were last elected Directors on the same day, those to retire by rotation shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire (both as to number and as to identity) shall be determined by the composition of the Board at the date of the notice convening the annual general meeting, and no Director shall be required to retire or be relieved from retiring by reasons of any change in the number or identity of the Directors or the appointment of him or any of them to be an executive Director after the date of such notice but before the close of the meeting.

87.3 A retiring Director shall be eligible for re-election. If he is not re-elected or deemed to be re-elected he shall hold office until the meeting elects someone in his place, or if it does not do so, until the end of the meeting.

87.4 If the Company, at the meeting at which a Director retires by rotation, does not fill the vacancy the retiring Director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the reappointment of the Director is put to the meeting and lost."

By order of the Board
Mrs Patricia Cox
Secretary
14 April 1998

29 Queen Anne's Gate
London SW1H 9BU

Notes

1 A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the company. The instrument appointing a proxy, which is contained on page 37, must be deposited at the offices of the Company's Registrars, IRG plc, not less than 48 hours before the meeting.

FORM OF PROXY

ANNUAL GENERAL MEETING 12 MAY 1998

I/We ....
(block capitals please)

of ....

being a member/members of Quester VCT plc hereby appoint* ....
or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the second Annual General Meeting of the Company to be held on 12 May 1998 and at any adjournment thereof.

Please indicate with an "X" in the appropriate box below how the proxy should vote and then sign in the space provided below. If no specific direction as to voting is given, the proxy may vote or abstain at his discretion.

Resolution No.	For	Against
1. To receive, consider and adopt the financial statements for the year ended 31 January 1998		
2. To declare a final net dividend of 1.5p per share in respect of the year ended 31 January 1998		
3. To re-appoint KPMG Audit plc as auditors and authorise the directors to fix their remuneration		
4. To disapply Section 89(1) of the Companies Act 1985 in relation to certain allotments of equity securities		
5. To authorise the Company to make market purchases of its shares		
6. To amend the Company's Articles of Association to permit the payment of dividends through the BACS system, in appropriate circumstances		
7. To amend the Company's Articles of Association to require the retirement of directors by rotation		

Signed this ....day of 1998

Signature ....

Name in Block Capitals ....

Initials and surnames of joint holder if any ....

....

*If you wish to appoint any person other than the Chairman as your proxy, insert his or her name and address in the space provided and initial the alteration. The person appointed to act as a proxy need not be a member of the Company.

In the case of a corporation this form of proxy must be expressed to be executed by the corporation and must be signed by a director and the secretary or by two directors or under the hand of a duly authorised officer or attorney.

In the case of joint holders the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.

To be effective, this proxy and any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority must reach the offices of the Company's Registrars, IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not less than 48 hours before the said meeting or any adjournment of the said meeting, using the enclosed prepaid envelope.

Attendance Indication
Shareholders who intend to attend the Annual General Meeting are requested to complete the indication below.

I intend to attend the Annual General Meeting on 12 May 1998

Signed.. Date..