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Annual Report 2002

Chairman's statement

OVERVIEW

The year ended 31 January 2002 was a difficult one for stock markets generally. Technology-related stocks, which in 1999 and 2000 had reached historically very high levels, suffered particularly badly. Quester VCT plc holds a number of quoted technology-related venture capital investments in its portfolio and has therefore not been immune to this change in sentiment. In addition, the business conditions faced by small companies, particularly in the technology-related sector, and the financing environment for such companies have become increasingly difficult. This has severely impacted upon a number of the companies in the venture capital portfolio, requiring a number of provisions to be made. The net effect has been to reduce the net asset value per share from 159.3 pence at 31 January 2001 to 78.3 pence at 31 January 2002.

Overall, the net asset value of the Company has been reduced from £49.8 million at 31 January 2001 to £27.6 million (including the new capital subscribed in the top-up share issue) at 31 January 2002. This movement includes a decline of £13.3 million in the valuation of quoted venture capital investments (equivalent to 40.6 pence per share in terms of the weighted average number of shares in issue during the year) and valuation reductions and provisions in respect of unquoted venture capital investments totalling £10.6 million (equivalent to 32.3 pence per share), including amounts written off in respect of two company failures.

Whilst the fall in the net asset value is disappointing, the performance of the fund, as demonstrated in the chart on page 3, shows a trend comparable with that of a range of other indices, though subject to greater volatility, and represents a positive result when compared to, for example, the performance of the FTSE AIM index over the life of the Company.

VENTURE CAPITAL PORTFOLIO PERFORMANCE

The performance of the venture capital portfolio, both the quoted companies and the larger number of unquoted companies, has been disappointing and includes the effect of the significant change in market sentiment. Unrealised gains of £14.2 million at 31 January 2001 had become unrealised losses of £5.7 million by the year end. The majority of this movement was attributable to the valuations of the quoted technology-related investments, which reduced by a total of £13.3 million. This partly represented a correction of the very high valuations of the previous period.

Our portfolio of unquoted investments, which contains a relatively high proportion of early stage businesses operating in a number of technology areas, has suffered from a particularly harsh economic environment affecting those sectors. As a result of these conditions it has been necessary to make certain provisions, both in respect of company failures and also in respect of businesses that have fallen behind plan. In present business and market conditions, the valuation of unquoted investments involves a difficult exercise of judgement. The Board considers that, after careful review, the valuations adopted at 31 January 2002 give a fair reflection of the overall value of the unquoted portfolio in accordance with the Guidelines issued by the British Venture Capital Association.

During the year a further £4.8 million has been committed to existing investments. Whilst the investment environment has been very testing, the significant fall in valuations has produced some benefits for the Company. We are continuing to back a number of potentially attractive opportunities and lower valuations have given the Company the opportunity to invest at significantly lower prices thus reducing the average cost of these investments. Generally we see the currently depressed market as creating a potentially attractive investment climate and it is reassuring that the Company is able to take advantage of this by continuing to invest in the existing portfolio.

A more detailed review of the performance of the venture capital portfolio is provided in the investment manager's report commencing on page 7.

INCOME STATEMENT AND DIVIDENDS

The Profit and Loss account for the year ended 31 January 2002 on page 26 shows a loss before tax of £3.1 million, including realised losses on investments totalling £2.4 million. The net loss per share amounted to 9.4 pence.

The Statement of Total Recognised Gains and Losses on page 27 shows net unrealised losses totalling £21.9 million (66.9 pence per share), mainly relating to the falling valuation of the venture capital portfolio. The total return attributable to shareholders for the year amounted to a net loss of 76.3 pence per share.

Against the background of the losses reported, the directors are unable to recommend the payment of a dividend to shareholders.

For the year ending 31 January 2003 and in future, dividends will be dependent on the realisation of capital profits. In current market conditions it is not possible to predict either the timing or level of the realisation of capital profits, and accordingly the amount and timing of future dividends remains uncertain.

Chairman's statement – continued

SHARE ISSUE

During the year the Company raised net proceeds of approximately £2.9 million through the issue of ordinary shares pursuant to the arrangements described in the Interim Statement. The shares were issued at a price of 100 pence each, which was approximately equal to the net asset value per share of the Company at the time the offer was made. The proceeds of this offer enhance the Company's ability to take advantage of good investment opportunities within the existing portfolio.

CONCLUSION AND OUTLOOK

The fall in the Company's net asset value has been disappointing, although cumulative performance is broadly comparable with the other indices that we have shown by way of comparison. A significant proportion of the losses of the year ended 31 January 2002 represent a market correction from the very high prices seen at the peak of the market. Despite this overall loss in value, the total return attributable to original investors in the Company remains significantly above the original subscription price of 100 pence. Inclusive of the dividends totalling 41.5 pence that have been distributed to shareholders over the life of the Company to date, the total value attributable to an original investor as at the year end is 119.8 pence. This return is enhanced by the up front income tax relief available to eligible shareholders.

We remain cautious but positive about the outlook for the Company and its investments. The portfolio of the Company is broadly spread and includes a range of investments that we believe have significant potential for the future. As has been said before, an investment in a VCT should be considered as an investment held for the medium to long term. Given the current environment, it is over that time frame that the inherent value of the portfolio should become apparent and it is hoped that we will be able in due course to distribute further significant gains to shareholders.

Tom Scruby
Chairman
22 April 2002

Investment manager's report

INTRODUCTION

The year ended 31 January 2002 was an increasingly challenging period for the portfolio. The business conditions and financing environment faced by small companies became increasingly difficult as the year progressed.

The change in sentiment in the quoted markets, particularly towards technology-related companies, had a severely adverse effect on the valuations of some venture capital investments which had raised money on AIM or the main London market in prior years. The high valuations for these quoted investments, which ruled at the end of our last financial year, were not sustained through 2001.

QUOTED VENTURE CAPITAL INVESTMENTS

The table on page 11 shows an overall valuation of the Company's holdings of quoted venture capital investments at 31 January 2002 of £2.3 million. This compares with a valuation of the same holdings at 31 January 2001 of £15.6 million and represents a reduction in unrealised surplus over the year of £13.3 million.

Orchestream Holdings plc accounts for the majority of the reduction in unrealised surplus with a fall in value of £8.5 million, its share price falling from 282.5 pence at 31 January 2001 to 10 pence at 31 January 2002. The holding in Adva AG Optical Networking fell in value by £2.4 million, its share price declining from Euro 63.7 at 31 January 2001 to Euro 4.9 at 31 January 2002. The share price of Surfcontrol plc declined over the year from £12.43 per share at 31 January 2001 to £6.20 at 31 January 2002 (producing a fall in value of £0.7 million), although the year end share price represented a significant recovery from the low touched in September 2001.

The decline in valuation of the residual holdings of these three quoted venture capital investments is clearly disappointing but it should be recalled that these investments had already delivered significant gains for shareholders in the Company. A proportion of each investment was sold on listing and generated distributable profits of £11.8 million from the three investments taken together. The remaining shareholdings were subject to "lock-up" preventing the sale of further shares within a defined period.

UNQUOTED VENTURE CAPITAL INVESTMENTS

During the year we have supported a number of companies in the investment portfolio with further rounds of finance and also made a significant contribution to their key strategic business planning decisions.

Investment manager's report - continued

A total of £4.8 million has been provided in additional financial support to 11 of the unquoted portfolio companies, some of the funding required having resulted from the postponement of IPOs planned for 2001. Of this total, £3.0 million has been provided to companies included in the "ten largest unquoted venture capital investments" in the table on page 11, including Anadigm Limited, Elateral Holdings Limited, Nomad Software Limited and Bowman Power Limited, which are regarded as having attractive prospects for growth.

Among the "ten largest unquoted venture capital investments", five are carried at valuations above cost, namely Anadigm Limited, CDC Solutions Limited, Nomad Software Limited, The Casella Group Limited and Sift Group Limited, while two are carried at cost and three at less than cost. Outside the "top ten", companies that have continued to receive further investment include Opsys Limited and Advanced Valve Technologies Limited, both early stage investments.

A disappointment during the year was the failure of Power X Limited, which had been developing as a leading designer of high performance switch fabrics for the telecommunications market. The £1.1 million cost of this investment has been written off and a further £1.4 million eliminated from the previously stated amount of unrealised gain. The performance of the company's products suggested significant potential, but the company was nonetheless unable to attract the required level of equity funding to continue its development programme.

Provisions have also been made to reduce the carrying value of 11 other unquoted investments: £3.9 million has been provided against cost with a further £2.9 million being eliminated from the previously stated amounts of unrealised gain. The failure of Shalibane plc, which was carried at a valuation of £195,000 at the start of the year, is reflected in the write-off of this amount.

VENTURE CAPITAL INVESTMENTS MADE DURING THE YEAR

Follow-on investments were made during the year as shown below:

Company	Industry sector	£'000
Advanced Valve Technologies Limited	Industrial products & services	691
Anadigm Limited	Electronics	638
Artisan Software Tools Limited	Software	141
Bowman Power Limited	Manufacturing	329
Elateral Holdings Limited	Software	375
HTC Healthcare Group plc	Other services	475
International Diagnostics Group plc	Healthcare	60
Nomad Software Limited	Software	363
Opsys Limited	Electronics	729
Power X Limited	IT hardware	201
Purple Technologies Limited	Software	788
		4,790

FURTHER VENTURE CAPITAL INVESTMENT

In current market conditions, the only investments likely to be made in the current year will be follow-on investments to support the continuing development of companies in the existing broadly spread portfolio. The portfolio holds a number of attractive investments with good potential and funds are in place to ensure that Quester VCT can continue to contribute to the funding of these investments, often on improved terms, as appropriate.

FTSE 350 EQUITY AND FIXED INTEREST PORTFOLIO

The Company continues to hold a portfolio of FTSE 350 equities and fixed interest securities. The FTSE 350 holdings, covering 20 investments, stood at a valuation approximately equal to the overall cost of £2.1 million as at the year end. The fixed interest holdings with an overall cost of £3.0 million were also at break-even. This portfolio, which is managed on behalf of the Company by Laing & Cruickshank Investment Management Limited, is retained as a potential reserve for future venture capital investment. It is currently used as security for the banking facility provided by Barclays Bank, which was unutilised as at 31 January 2002.

Investment manager's report – continued

CONCLUSION

Last year was tough. We suffered some disappointments and regret that shareholders, after two very good years, will have seen a significant fall in the value of the Company's assets.

As the companies in the venture capital portfolio address such varied markets a consistent picture of either improving business conditions or investment confidence cannot be reported. Many companies continue to report uncertain investment conditions and fragile demand for their products. However the performance and prospects for a number of key investments give cause for some cautious optimism that some companies in the portfolio will see improving performance this year.

Quester Capital Management Limited
22 April 2002

Fund summary

AS AT 31 JANUARY 2002

Quoted venture capital investments	Industry sector	Cost £'000	Valuation £'000	% of fund by value
Surfcontrol plc	Software	274	744	2.7%
Crown Sports plc	Leisure	475	662	2.4%
Orchestream Holdings plc	Software	985	356	1.3%
XKO Group plc	Software	505	204	0.7%
Adva AG Optical Networking	Telecoms	682	196	0.7%
Sirius Financial Solutions plc	Software	144	74	0.3%
Deep Sea Leisure plc	Leisure	200	53	0.2%
Sopheon plc	Software	150	29	0.1%
		3,415	2,318	8.4%
Ten largest unquoted venture capital investments				
Anadigm Limited	Electronics	1,263	2,022	7.3%
CDC Solutions Limited	Software	1,020	1,770	6.4%
Elateral Holdings Limited	Software	1,881	1,641	5.9%
Nomad Software Limited	Software	1,102	1,241	4.5%
The Casella Group Limited	Consultancy	750	1,042	3.8%
Bowman Power Limited	Manufacturing	1,026	1,026	3.7%
Sift Group Limited	Internet	875	972	3.5%
HMV Group plc	Retail	1,119	840	3.0%
HTC Healthcare Group plc	Other services	800	800	2.9%
Purple Technologies Limited	Software	1,788	788	2.9%
		11,624	12,142	43.9%
Other unquoted venture capital investments		11,737	6,622	24.0%
Total venture capital investments		**26,776**	**21,082**	**76.3%**
Listed fixed interest investments		2,978	2,969	10.8%
FTSE 350 equity investments		2,066	2,101	7.6%
Total investments		**31,820**	**26,152**	**94.7%**
Cash and other net current assets		1,462	1,462	5.3%
Net assets		**33,282**	**27,614**	**100.0%**

Ten largest venture capital investments

A summary of the ten largest venture capital investments, by valuation, held by Quester VCT plc as at 31 January 2002 is set out below. All of these companies are incorporated in the UK.

ANADIGM LIMITED **www.anadigm.com**

Anadigm's patented technology recreates the functionality of analogue components such as resistors, capacitors and amplifiers on a single user-definable chip called a field-programmable analogue array (FPAA). Using Anadigm's software, engineers simply 'drag-and-drop' the analogue function blocks they need into place, and with the click of a button the configuration data is downloaded to the FPAA – producing the required solution.

This software-centric approach is faster and simpler than traditional design methods, which typically require many individual components and a highly skilled process of configuration, reducing the need for design skills dealing with increasingly complex products is reduced.

Anadigm has recently signed an international distribution agreement with distributors in Japan. In September Anadigm won the 2001 Award for 'Excellence in ICs & Semiconductors' from the leading UK design magazine Components in Electronics.

Initial Investment:	January 2000
Cost:	£1,263,000
Valuation as at 31 January 2002:	£2,022,000
Equity held:	11.5%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3, Quester VCT 4

CDC SOLUTIONS LIMITED

www.cdcsolutions.com

CDC Solutions is the leader in high performance document based solutions to the Life Sciences industries. The company delivers solutions that enable Life Sciences companies to meet the strict standards of regulatory authorities across the world, helping them achieve quality, accuracy and data integrity to deliver reports and submissions reliably on time. CDC Solutions helps customers to compress the submission and approval process, improving speed to market, cost control and productivity.

In January 2002 CDC Solutions announced record annual revenues amounting to an increase of 56 per cent from the prior year. In addition, they posted record high sales in Q4 2001, with strong revenues in Europe. The Sunday Times and PriceWaterhouseCoopers recognised CDC Solutions as one of Britain's Fastest Growing Technology Companies in November 2001 placing them 26th out of 100 in the Sunday Times ARM Tech Track 100.

Initial Investment:	November 1999
Cost:	£1,020,000
Valuation as at 31 January 2002:	£1,770,000
Equity held:	6.2%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3, Quester VCT 4

ELATERAL HOLDINGS LIMITED

www.elateral.co.uk

Elateral provides solutions for global marketing campaigns, enabling document creation and channel distribution to be controlled over the internet. The tools sold by Elateral enable corporates' marketing departments to be connected to their design agencies, printers and resellers. This has helped vendors maintain a globally consistent brand while targeting individual markets, reducing cost and time-to-market.

Elateral customers include some of the world's largest enterprises including; COMPAQ, Hewlett Packard, Cisco, Microsoft, WorldCom and DaimlerChrysler. Elateral has offices in London, Boston, Munich, Paris, San Jose and Sydney.

Initial Investment:	May 1999
Cost:	£1,881,000
Valuation as at 31 January 2002:	£1,641,000
Equity held:	7.4%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3, Quester VCT 4

Ten largest venture capital investments – continued

NOMAD SOFTWARE LIMITED **www.nomadsoft.co.uk**

Nomad works with Banks and Payment Service providers to create innovative payment solutions with a modern product portfolio. Their solutions are focused on delivering a superlative service to the Banks' customers. It brings a fresh approach to the card banking business.

Nomad Software recently announced that it has been chosen by Bank Zachodni WBK as its executive card processing software provider. Other customers include The Bank of England, Parekss Banka, Nordea AB and Hypo Alpe-Adria-Bank d.d.

Initial Investment:	March 2000
Cost:	£1,102,000
Valuation as at 31 January 2002:	£1,241,000
Equity held:	8.1%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 4, Quester Venture Partnership

THE CASELLA GROUP LIMITED **www.casella.co.uk**

Operating from a network of offices throughout the UK, Casella offers environmental services consultancy, analysis and equipment to a wide variety of clients, including local and central government and corporates.

The demand for environmental consultancy services is growing. Casella has been quick to react to market demands. It offers multidisciplinary skills in both the built and natural environment, including environmental impact assessment, asbestos management, contaminated land, waste management, health, safety and air quality issues.

The Company's investment originally helped finance a new asbestos consultancy in Bristol and fund a number of acquisitions, including Stranger Science and Environment, Winton and MGC. These acquisitions have helped to further secure Casella's position as a market leader in the environmental solutions market.

Initial Investment:	April 2000
Cost:	£750,000
Valuation as at 31 January 2002:	£1,042,000
Equity held:	3.7%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3

BOWMAN POWER LIMITED

www.bowmanpower.com

Bowman Power Systems, has developed Turbogen™, a family of small-scale compact power generation systems, for distributed power generation and for mobile power applications. These systems are based on micro gas turbines and high speed generator technologies. They efficiently and cost effectively produce electrical power and heating or cooling.

The Bowman system offers significantly improved efficiency in comparison with power generated and distributed by large power stations with, beneficially to the environment, low emissions. Advantages to the customer include improved power quality, increased power availability and a system optimised for the customers' application.

Trial machines have been successfully delivered to customers in the UK, mainland Europe, USA and Japan and a full product launch is underway.

Initial Investment:	April 2000
Cost:	£1,026,000
Valuation as at 31 January 2002:	£1,026,000
Equity held:	1.8%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3

SIFT GROUP LIMITED

www.sift.co.uk

Sift builds, hosts and maintains internet community based marketplaces offering members a wealth of industry specific information, specialist support services, networking opportunities for potential partners and suppliers and e-commerce facilities and services.

Sift's revenues come from designing, building and hosting communities and also from a mixture of membership subscription, e-commerce, recruitment and online advertising derived from over 300,000 registered users of the communities. Sift's own communities include AccountingWEB.co.uk, CRM-Forum.com, HR Zone.co.uk, LawZone.co.uk and TrainingZone.co.uk.

Sift's clients include the British Cardiac Society, the British Council, the European Commission, ICC Information, the National Health Service, Quantum Business Media and over 100 accountancy firms.

Initial Investment:	November 1999
Cost:	£875,000
Valuation as at 31 January 2002:	£972,000
Equity held:	5.0%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3, Quester VCT 4

Ten largest venture capital investments – continued

HMV GROUP PLC

www.hmv.co.uk

HMV Group, one of the world's leading retailers of music and video and the leading retailer of books in the UK and Ireland, was formed in March 1998, as a result of the acquisitions of HMV from EMI Group plc and Waterstone's from WH Smith Group plc.

The Group's principal businesses are in the UK, Japan and Canada, which are three of the world's six largest music markets in terms of sales. In terms of music sales, the Group is the market leader in the UK and is the leading retailer of music in Ireland, Hong Kong and Singapore and has the number two position in Australia. The Group aslo has the leading market position in video and books in the UK and Ireland.

HMV Group announced in April its intention, subject to market conditions, to proceed with an initial public offering of shares and listing on the London Stock Exchange. It is intended that the flotation will be completed before the end of June.

Initial Investment:	July 1998
Cost:	£1,119,000
Valuation as at 31 January 2002:	£840,000
Equity held:	0.17%
Co-investing Quester funds:	Parquest Venture Partnership

HTC HEALTHCARE GROUP PLC

www.happytimes.co.uk

HTC Healthcare Group PLC runs Happy Times© day nurseries for 0-5 year olds. It is a growing and well known nursery group in south-west London, providing high quality childcare in a rapidly expanding market. During the year the group opened its third 150-place nursery in Richmond to add to its existing ones of similar size in Hammersmith and Battersea.

Initial Investment:	September 1999
Cost:	£800,000
Valuation as at 31 January 2002:	£800,000
Equity held:	17.5%
Co-investing Quester funds:	Quester VCT 2

PURPLE TECHNOLOGIES LIMITED

www.purplesoft.com

Purple Technologies ("Purple") is a pioneer in the development of Artificial Intelligence gaming. Purple is focused on the development of software applications and technologies for browser phones, wireless internet devices and other emergent digital platforms such as interactive TV. Revenues are generated by licensing its intellectual property to key strategic partners and content aggregators and wireless device manufacturers throughout the world.

Purple has partnerships with Digital Bridges, Ericsson, Lucent, Microsoft, Nokia, Psion, Symbian and Texas Instruments.

Initial Investment:	April 1999
Cost:	£1,788,000
Valuation as at 31 January 2002:	£788,000
Equity held:	19.2%
Co-investing Quester funds:	Quester VCT 2, Quester VCT 3

Directors

TOM SCRUBY (67), Chairman, is executive chairman of the Gieves Group plc. His non-executive directorships include Centaur Communications Limited and Linguaphone Group plc. 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 a member of the Audit Committee and is a director of Quester VCT 2 plc.

SIMON BAKEWELL (46) 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 (57), the managing director of Quester, has substantial venture capital experience, having founded Quester in 1984. Prior to that 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 smaller quoted company corporate finance. He is currently closely involved with companies in a range of sectors, including healthcare and new materials technology. He is a non-executive director of each of the other Quester VCTs and a number of companies within Quester's investment portfolio.

TOM SOOKE (57) is the chairman of ProVen Media VCT plc and a director of ProVen VCT plc and, over the past 10 years, has been a non-executive director of a number of quoted and unquoted companies. Previously, he was a partner in Deloitte & Touche, co-managing the firm's corporate advisory group in London. Prior to that he was a corporate finance director at Granville Holdings plc, where he also established and managed its main private equity fund activity from 1980 to 1987. He is chairman of the Audit Committee.

JOHN SPOONER (48) founded Quester in 1984 after six years with 3i. Prior to joining 3i he qualified as a chartered accountant with Moore Stephens. His venture capital experience covers 23 years and has included a particular involvement in the business services and leisure sectors. He has acted as a non-executive director of a number of companies in the Quester portfolio. He is a non-executive director of each of the other Quester VCTs and is also a non-executive director of the Perpetual UK Smaller Companies Investment Trust plc.

All the directors are non-executive and Tom Scruby, Simon Bakewell and Tom Sooke are independent of the Manager. Tom Scruby and Andrew Holmes offer themselves for re-election at the Annual General Meeting to be held on 28 May 2002.

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 2002.

ACTIVITIES AND STATUS

The principal activity of the Company during the year continued to be the making of equity and loan investments, mainly in unquoted companies. The Company has been granted provisional approval by the Inland Revenue as a Venture Capital Trust. Its shares have been listed on the Official List of the UK Listing Authority (previously of the London Stock Exchange) since 3 April 1996.

The directors have managed and intend to continue to manage the affairs of the Company in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988. The directors consider that the Company has not at any time up to the date of this report been a close company within the meaning of Section 414 of that Act. The Company has no subsidiaries.

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 should continue as a venture capital trust.

REVIEW OF THE BUSINESS

The Chairman's Statement and Investment Manager's Report commencing on pages 4 and 7 respectively include a review of developments during the year and of future prospects.

RESULTS AND DIVIDENDS

A loss of £3,076,000 has arisen during the year ended 31 January 2002, creating a deficit on the profit and loss account of £1,744,000. The Board does not recommend the payment of a dividend in respect of the year.

The mid-market price of the Company's shares at 31 January 2002 was 87.5p per share. The mid-market price ranged from 80p to 163p during the year, whilst the Company's net asset value ranged from 78.3p to 159.3p during the same period.

CORPORATE GOVERNANCE

A report on corporate governance is set out on pages 44 to 46.

Directors' report – continued

ISSUE AND BUY-BACK OF SHARES

During the year 4,239,063 ordinary shares of 5p each were issued by the company as follows:

	Year ended 31 January 2002 (number of shares)
Dividend reinvestment scheme	40,584
Exercise of share options	1,201,629
Issue of shares	2,996,850
	4,239,063

The 40,584 ordinary shares of 5p each were subscribed for at a price of 132.2p per share under the terms of the dividend reinvestment scheme and were allotted on 21 June 2001.

Under the terms of the Subscription Share Option Agreement dated 22 February 1996, as amended by a Supplementary Deed dated 16 January 1997, and as reported in the 2001 Annual Report, APG Holmes, JA Spooner, their immediate families and an employee benefit trust ("the Option Holders") became entitled to exercise their rights to subscribe for new ordinary shares as certain performance targets had been met (note 11). They were entitled to subscribe for and be allotted as fully paid 1,201,629 ordinary shares of 5p each at a price of 5p per share. These shares were duly allotted on 5 June 2001.

The Directors utilised the authority granted at the Annual General Meeting held on 22 May 2001 to offer up to 3,000,000 ordinary shares of 5p each at a subscription price of 100p per share. A total of 2,996,850 ordinary shares were subscribed for and allotted.

During the year 200,000 ordinary shares of 5p each were bought in by the Company for cancellation at a total cost of £164,000.

DIRECTORS

The directors of the Company during the year and their interests in the issued ordinary shares of 5p each of the Company at 31 January 2002 and as at the date of this report were as follows:

	31 January 2002	31 January 2001
BTR Scruby (Chairman)	30,000	30,000
SM Bakewell	20,000	20,000
APG Holmes	371,079	65,000
TP Sooke	22,500	22,500
JA Spooner	505,855	70,000

The interests in the ordinary shares of the Company held by APG Holmes and JA Spooner, as disclosed in the table above, include interests held by connected parties.

All of the directors' share interests shown above were held beneficially. During the year APG Holmes, JA Spooner and their immediate families exercised their rights under the terms of the Subscription Share Option Agreement referred to above and subscribed for 306,079 and 435,835 ordinary shares respectively. According to the register of directors' interests no right to subscribe for shares in the Company was granted to, or exercised by, any other director during the financial year. No director had an interest in the share capital of the Company that would have to be disclosed to the Company under sections 198 to 208 of the Companies Act 1985.

APG Holmes and JA Spooner are directors and shareholders of Querist Limited (the ultimate parent company of Quester Capital Management Limited, the manager). They are also executive investors of Quester Capital Management Limited. APG Holmes and JA Spooner and an employee benefit trust hold options to subscribe for shares under the Subscription Share Option Agreement referred to above and in note 11 to the financial statements.

Each of the directors has entered into an agreement to act as non-executive director of the Company. One third of the directors are required to retire by rotation every year.

Save for the Subscription Share Option Agreement referred to above and the Management Agreement referred to below, no contracts subsisted during or at the end of the year in which any director was materially interested. Disclosures required by Financial Reporting Standard (FRS) 8, 'Related Party Disclosures' are set out in note 17 of the financial statements.

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. The Company does not follow any code or standard with regard to creditor payment practice. At 31 January 2002 there were 12 days billings from the suppliers of services outstanding (2001: 13 days).

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.

SUBSTANTIAL SHAREHOLDINGS

As at 22 April 2002, the latest practicable date prior to the publication of this report, the Company had not been notified of any individual shareholdings representing an amount in excess of 3% of the Company's share capital.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 10.00 a.m. on 28 May 2002. The Notice of Annual General Meeting is set out at the end of this document. As well as the ordinary business of the meeting, resolutions (set out in bold type in the Notice of Meeting) will be proposed as special business to increase the authorised share capital of the Company, to renew the directors' authority to allot shares, to renew the authority of the directors to issue shares for cash otherwise than pro rata to existing shareholders and to renew the authority of the Company to purchase its own shares. Explanations of the resolutions are set out in light type in the Notice of Meeting.

<u>Action to be taken</u>

Accompanying this document is a form of proxy for use at the Annual General Meeting. Please complete, sign and return the enclosed form as soon as possible in accordance with the instructions printed thereon. A form of proxy should in any event be returned as indicated so as to be received not less than 48 hours before the time appointed for holding the Annual General Meeting.

The return of a form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you wish to do so.

GOING CONCERN

The directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they 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.

AUDITOR

KPMG Audit Plc is willing to continue in office and a resolution to re-appoint it and to authorise the directors to fix its remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

MG Williams
Secretary
22 April 2002

Independent auditor's report

TO THE MEMBERS OF QUESTER VCT PLC

We have audited the financial statements of Quester VCT plc which comprise profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and notes 1 to 18.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 47 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement commencing on page 44 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 affairs of the Company as at 31 January 2002 and of the loss 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
22 April 2002

Profit and loss account

FOR THE YEAR ENDED 31 JANUARY 2002

	Notes	2002 £'000	2001 £'000
(Loss)/profit on realisation of investments	8	**(2,383)**	5,285
Income	1	**483**	1,141
Investment management fee	2	**(723)**	(1,054)
Other expenses	3	**(453)**	(283)
(Loss)/profit on ordinary activities			
before taxation		**(3,076)**	5,089
Tax on ordinary activities	5	**–**	(22)
(Loss)/profit on ordinary activities			
after taxation		**(3,076)**	5,067
Dividends paid and proposed	6	**–**	(8,662)
Transfer from reserves		**(3,076)**	(3,595)
Basic (loss)/earnings per share	7	**(9.4)p**	16.4p
Diluted (loss)/earnings per share	7	**(9.4)p**	15.8p

All 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 from bank deposits.

In accordance with Financial Reporting Standard (FRS) 14, the outstanding option (note 11) gives rise to no dilution to the return per share.

The accompanying notes are an integral part of this statement.

Statement of total recognised gains and losses

FOR THE YEAR ENDED 31 JANUARY 2002

	Notes	2002 £'000	2001 £'000
(Loss)/profit on ordinary activities after taxation		**(3,076)**	5,067
Unrealised (loss)/gain on revaluation of investments	8	**(21,911)**	10,509
Total gains and losses recognised during the period		**(24,987)**	15,576
Total recognised (losses)/gains per share	7	**(76.3)p**	50.3p

Note of historical cost profits and losses

FOR THE YEAR ENDED 31 JANUARY 2002

	Notes	2002 £'000	2001 £'000
Reported (loss)/profit on ordinary activities before taxation		**(3,076)**	5,089
Realisation of investment revaluation (losses)/gains of prior years	12	**(1,047)**	6,677
Historical cost (loss)/profit on ordinary activities before taxation		**(4,123)**	11,766
Historical cost (loss)/profit for the year retained after taxation and dividends		**(4,123)**	3,082

The accompanying notes are an integral part of this statement.

Balance sheet

AS AT 31 JANUARY 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Investments	8	**26,152**	46,919
Current assets			
Debtors	9	**831**	577
Cash at bank		**1,400**	3,088
		2,231	3,665
Creditors (amounts falling due within one year)	10	**(769)**	(818)
Net current assets		**1,462**	2,847
Net assets		**27,614**	49,766
Capital and reserves			
Called-up equity share capital	11	**1,764**	1,562
Share premium account	12	**2,787**	–
Special reserve	12	**29,302**	29,456
Revaluation reserve	12	**(4,495)**	16,369
Profit and loss account	12	**(1,744)**	2,379
Total equity shareholders' funds		**27,614**	49,766
Net asset value per share	13	**78.3p**	159.3p
Diluted net asset value per share	13	**78.3p**	153.4p

The financial statements on pages 26 to 43 were approved by the directors on 22 April 2002 and were signed on their behalf by:

Tom Scruby

Chairman

The accompanying notes are an integral part of this statement.

Cash flow statement

FOR THE YEAR ENDED 31 JANUARY 2002

	2002 £'000	2001 £'000
Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities		
(Loss)/profit on ordinary activities before taxation	(3,076)	5,089
(Increase)/decrease in debtors	(252)	323
Increase in creditors	118	39
Amortisation of bonds	59	–
Purchase of bought interest	(20)	–
Tax witheld at source on franked investment income	–	(22)
Repayment of income tax suffered at source	79	132
Income tax suffered at source	(61)	(162)
Loss/(profit) on realisation of investments	2,383	(5,285)
Cash (outflow)/inflow from operating activities	(770)	114
Financial investment		
Purchase of investments	(10,142)	(18,393)
Sale/redemption of investments	6,811	27,874
	(4,101)	9,595
Equity dividends paid	(422)	(8,240)
Financing		
Issue of ordinary shares under the dividend reinvestment scheme	54	639
Issue of shares under the terms of the subscription share option agreement	60	–
Issue of shares (net of issue expenses)	2,885	–
Buy-in of shares	(164)	–
(Decrease)/increase in cash for the year	(1,688)	1,994
Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash for the year	(1,688)	1,994
Net funds at the start of the year	3,088	1,094
Cash balance at the end of the year	1,400	3,088

The accompanying notes are an integral part of this statement.

Accounting policies

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

BASIS OF ACCOUNTING

These 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.

As a result of the directors' decision to distribute capital profits by way of a dividend, the Company applied for its investment company status, as defined under Section 266 of the Companies Act 1985, to be revoked on 15 September 1999.

Consequently, the financial statements have been drawn up to include a profit and loss account and a statement of total recognised gains and losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance).

INVESTMENTS

Quoted investments, including fixed interest securities and investments traded on AIM, are stated at mid-market prices. However, where the Company is unable to sell its shares in a company on account of a lock-up, a discount is applied to the mid-market price. If the lock-up is for a period of six months or less from the reporting date then a discount of 10 per cent is applied. If the lock-up is for a longer period than six months then a discount of 10 per cent or more is applied.

Unquoted investments are stated at directors' valuations. 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 under performance against plan indicates a diminution in the value of the investment, provision against cost is made as appropriate in bands of 25 per cent.
- 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 through the application of a price-earnings ratio for a period of at least twelve months from the date of acquisition.

- where a value is indicated by a material arms-length transaction in the shares of a company by a previously unconnected third party.

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 (FRS) 9.

GAINS AND LOSSES ON INVESTMENTS

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the Revaluation Reserve, unless the directors believe that there has been a permanent diminution in value, in which case the write-down is charged directly to the Profit and Loss account. When an investment is sold, or written-off, any balance held on the Revaluation Reserve is transferred to the Profit and Loss account as a movement on reserves.

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 (including amortisation of any premium or discount to redemption) so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

EXPENSES

All expenses are accounted for on an accruals basis. Expenses are charged wholly to the profit and loss account, 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.

TAXATION

Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the year.

Notes to the financial statements

1 INCOME

	2002 £'000	2001 £'000
Dividend income		
Unlisted companies	96	96
Listed companies	77	125
Interest receivable		
Fixed interest securities	177	160
Bank deposits	83	74
Loans to unquoted companies	46	680
Sundry income	4	6
	483	1,141

2 INVESTMENT MANAGEMENT FEE

Quester Capital Management Limited ("QCML") provides investment management services to the Company under an agreement dated 22 February 1996 as amended by a supplemental agreement dated 16 January 1997, a second supplemental agreement dated 30 June 1998 and a third supplemental agreement dated 8 September 1998.

QCML is a wholly owned subsidiary of Querist Limited, a company in which APG Holmes and JA Spooner are beneficial shareholders. APG Holmes and JA Spooner are executive directors of QCML.

QCML receives a management fee, payable quarterly in arrears, at the rate of 2.5 per cent on the value of the audited net assets of the Company as at the end of the previous accounting period. This charge is capped to ensure that the Company's Running Costs do not exceed 3.25 per cent of the closing net asset value. The net management fee for the year amounted to £723,000 (2001: £1,141,000).

QCML also provides administrative and secretarial services to the Company for which it is entitled to a fee of £40,000 per annum (based on an amount which is adjusted in line with the RPI), which is included in other expenses (note 3).

3 OTHER EXPENSES

	2002 £'000	2001 £'000
Administrative and secretarial services	**40**	39
Directors' remuneration (note 4)	**39**	43
Auditor's remuneration – audit services	**17**	17
– non-audit services	**10**	14
Legal and professional expenses	**42**	45
Irrecoverable VAT	**246**	74
Other expenses	**59**	51
	453	283

4 DIRECTORS' REMUNERATION

	2002 £'000	2001 £'000
Fees paid to directors	**12**	16
Amounts paid to third parties, excluding VAT, in consideration of the services of directors	**27**	27
	39	43

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

	2002 £'000	2001 £'000
BTR Scruby (Chairman)	**15**	15
SM Bakewell	**12**	12
APG Holmes	**–**	–
TP Sooke	**12**	12
JA Spooner	**–**	–

None of the directors received any other remuneration or benefit during the year. APG Holmes and JA Spooner have waived their entitlement to directors' fees for all accounting periods ended on, or prior to, 31 January 2002.

APG Holmes and JA Spooner and their immediate families are potential beneficiaries under the Subscription Share Option Agreement referred to in note 11. During the year ended 31 January 2002, APG Holmes, JA Spooner and their immediate families, including family trusts, exercised share options under the terms of the Subscription Share Option Agreement. Further information is provided in note 11.

Notes to the financial statements – continued

5 TAX ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
Tax attributable to dividend income	–	22
	–	22

6 DIVIDENDS PAID AND PROPOSED

	2002 £'000	2001 £'000
First interim dividend	–	3,092
Second interim dividend	–	5,148
Final dividend	–	422
	–	8,662

7 EARNINGS PER SHARE

The loss per share of 9.4p (2001: earnings per share of 16.4p) is based on the loss on ordinary activities after tax of £3,076,000 (2001: profit of £5,067,000) and on ordinary shares of 32,739,524 (2001: 30,982,686), being the weighted average number of shares in issue during the year. The prior year's diluted earnings per share of 15.8p is based on the profit on ordinary activities after taxation of £5,067,000 and on shares of 32,094,399, being the weighted average number of shares in issue during the year adjusted to reflect the dilution effect detailed in note 11. There is no dilution effect in respect of the year ended 31 January 2002.

The total recognised loss per share of 76.3p (2001: gain of 50.3p) is based on the total recognised losses for the year of £24,987,000 (2001: net gains of £15,576,000) and on 32,739,524 ordinary shares (2001: 30,982,686), being the weighted average number of shares in issue during the year.

8 INVESTMENTS

	2002 £'000	2001 £'000
Quoted venture capital investments	**2,318**	15,795
Unquoted venture capital investments	**18,764**	24,523
Bonds and equity shares	**5,070**	6,601
	26,152	46,919
Bonds and equity shares comprise:		
– Listed fixed interest securities	**2,969**	3,846
– FTSE 350 equity shares	**2,101**	2,755
	5,070	6,601

8 INVESTMENTS - continued

Movements in investments during the year are summarised as follows:

	Quoted venture capital £'000	Unquoted venture capital £'000	Bonds & equities £'000	Total £'000
Cost at 1 February 2001	4,620	21,499	6,176	32,295
Unrealised gains at 1 February 2001	11,175	3,024	425	14,624
Valuation at 1 February 2001	15,795	24,523	6,601	46,919
Movements in the year:				
Purchases at cost	–	4,790	5,352	10,142
Disposals – proceeds	(4)	(408)	(6,399)	(6,811)
– realised net gains/(losses) on disposal	4	40	–	44
Write-off of investments	(195)	(1,977)	–	(2,172)
Amortisation of investments	–	–	(59)	(59)
Net unrealised loss on revaluation of investments	(13,282)	(8,204)	(425)	(21,911)
Valuation at 31 January 2002	**2,318**	**18,764**	**5,070**	**26,152**
Book cost at 31 January 2002	3,415	23,361	5,044	31,820
Unrealised net (losses)/ gains at 31 January 2002	(1,097)	(4,597)	26	(5,668)
	2,318	**18,764**	**5,070**	**26,152**

Quoted venture capital investments are comprised of all venture capital investments that have obtained a listing on a recognised stock exchange or are traded on the Alternative Investment Market. Bonds and equities represent the portfolios of FTSE 350 equities and listed fixed interest securities managed on behalf of Quester VCT plc by Laing & Cruickshank Investment Management Limited.

The overall loss on realisation of investments shown in the Profit and Loss account is analysed as follows:

	2002 £'000	2001 £'000
Net gains on disposal	**44**	6,984
Write-off of investments	**(2,172)**	(1,699)
Provision for bank guarantees given in respect of investee companies	**(255)**	–
	(2,383)	5,285

Notes to the financial statements – continued

9 DEBTORS

	2002 £'000	2001 £'000
Other debtors	**800**	532
Prepayments and accrued income	**31**	45
	831	577

Other debtors include, due by Quester Capital Management Limited, being an advance of £100,000 (2001: £100,000) and an amount of £520,000 in respect of management fee recoverable in quarterly instalments over the year ending 31 January 2003, in each case pursuant to the terms of the investment management agreement referred to in note 2.

10 CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	2002 £'000	2001 £'000
Trade creditors	**38**	10
Accruals	**476**	386
Other creditors	**255**	–
Proposed dividend	**–**	422
	769	818

11 CALLED-UP EQUITY SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised:		
37,100,000 (2001: 37,100,000) ordinary shares of 5p	**1,855**	1,855
Allotted, issued and fully paid:		
35,278,821 (2001: 31,239,758) ordinary shares of 5p	**1,764**	1,562

Under the terms of a Subscription Share Option Agreement dated 22 February 1996, as amended by a Supplemental Deed dated 16 January 1997, APG Holmes, JA Spooner, their immediate families and an employee benefit trust ("the Option Holders") would become entitled to subscribe for new ordinary shares at par provided aggregate gross dividends of at least 40p per share had been declared and paid and the net asset value per share plus the aggregate gross dividends paid on each share was at least 140p in 2001, increasing by 4p per year up to 164p in 2007. The number of new shares would be calculated according to a formula contained in the Agreement depending upon performance such that the benefit to the Option Holders would, at the maximum, not exceed 10 per cent of the issued share capital.

11 CALLED-UP EQUITY SHARE CAPITAL - continued

As at 31 January 2001, the relevant conditions had been satisfied and the Option Holders were therefore entitled to exercise a proportion of their rights under the options. These rights allowed them to subscribe for and be allotted as fully paid 1,201,629 ordinary shares of 5p each (ranking *pari passu* in all respects with the existing ordinary shares) at a cost of 5p per share. The dilution effect to original shareholders of the issue of these shares was 3.7 per cent.

The Option Holders are not entitled to subscribe for any further shares under the terms of the Agreement in respect of the financial year ended 31 January 2002, but retain the right in future to subscribe for further shares in the Company, provided that the relevant performance targets are met.

12 RESERVES

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 February 2001	–	29,456	16,369	2,379
Shares allotted under the dividend reinvestment scheme	52	–	–	–
Shares allotted under the terms of the 2001 Offer for shares	2,847	–	–	–
Expenses of share issue	(112)	–	–	–
Expenses of share buy-ins	–	(154)	–	–
Realisation of prior years' net unrealised losses on investments	–	–	1,047	(1,047)
Net unrealised loss on revaluation of investments	–	–	(21,911)	–
Retained loss for the year	–	–	–	(3,076)
At 31 January 2002	**2,787**	**29,302**	**(4,495)**	**(1,744)**

Notes to the financial statements – continued

13 NET ASSET VALUE PER SHARE

The calculation of net asset value per share as at 31 January 2002 is based on net assets of £27,614,000 (2001: £49,766,000) divided by the 35,278,821 ordinary shares in issue at that date (2001: 31,239,758).

The calculation of the diluted net asset value per share as at 31 January 2001 is based on the net assets of £49,766,000 divided by the 32,441,387 ordinary shares in issue at that date, as increased by the allotment of 1,201,629 ordinary shares of 5p each under the terms of the share option agreement detailed in note 11.

14 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2002 £'000
At 1 February 2001	49,766
Issue of additional equity share capital:	
– Dividend reinvestment scheme	54
– 2001 offer for shares (net of issue expenses)	2,885
– Exercise of share options	60
Buy-in of the Company's shares for cancellation	(164)
Total gains and losses recognised in the period	(24,987)
At 31 January 2002	**27,614**

15 COMMITMENTS AND GUARANTEES

As at 31 January 2002 there were commitments totalling £903,000 (2001: £550,000) in respect of follow on investments in existing portfolio companies and guarantees.

16 FINANCIAL INSTRUMENTS

MANAGEMENT OF RISK

The Company's objective is to provide shareholders with an attractive income and capital return by investing approximately 85 per cent of its funds in a broad spread of unquoted UK companies, which meet the relevant criteria for venture capital trusts and approximately 15 per cent in the quoted equities and securities of the 350 largest companies on the Daily Official List of the UK Listing Authority, gilts and other securities. This latter allocation to be held as a reserve and available for second-round financing. The holding of these financial instruments to meet this objective results in certain risks.

The Company's financial instruments comprise:

- Shares, securities and other financial commitments, including loan notes and guarantees, in unquoted and quoted companies, which are held in accordance with the Company's investment objective.
- An overdraft facility of £5 million provided by Barclays Bank PLC to provide additional liquidity to fund the Company's day-to-day working capital needs and to support further investment. This facility is secured by a charge on the Company's investments held in the portfolio managed by Laing & Cruickshank Investment Management Limited.
- Cash, liquid resources and short-term debtors and creditors arising from the Company's operations.

The main risks arising from the Company's financial instruments are liquidity risk, market price risk, interest rate and foreign currency risk.

Short term debtors and creditors that meet the definition of a financial asset or liability under FRS 13 have been excluded from the numerical disclosures in this note.

LIQUIDITY RISK

The Company's assets comprise quoted and unquoted equity and non-equity shares and fixed income securities. To fund the Company's primary objective of investing in venture capital opportunities, the cash balances and bond portfolio have been reduced. Additional equity capital of £3 million has been raised. Future short-term flexibility is achieved through the Company's cash resources, bond and equity portfolio and overdraft facility. As at the year end, the Company had no borrowings.

Notes to the financial statements – continued

16 FINANCIAL INSTRUMENTS - continued

MARKET PRICE RISK

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions or unquoted investments in the face of price movements, mitigated by stock selection.

INTEREST RATE RISK

Financing has been obtained through a £5 million overdraft facility provided by Barclays Bank PLC during the year, which was utilised for 35 days during the financial year ended 31 January 2002 (2001: 88 days). Interest charges arising from this facility are at floating rates of interest and are charged at 1.25 per cent per annum above the base rate of Barclays Bank PLC.

Any cash balances held on deposit mitigate in part the interest rate risk. These balances are placed on the money markets generally with a one week duration.

At the period end the Company had no liabilities that were subject to interest rate risk (2001: £nil).

Interest rate risk profiles for the Company's financial assets are shown below.

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

	2002 £'000	2001 £'000
Floating rate	1,400	3,088
Fixed rate	6,460	2,388
Non-interest bearing	19,692	42,334
	27,552	47,810

FIXED RATE FINANCIAL ASSET WEIGHTED AVERAGES

	2002	2001
Fixed rate financial assets weighted average interest rate	8.3%	10.0%
Weighted average time for which rate is fixed (years)	1.1	2.6

16 FINANCIAL INSTRUMENTS - continued

FOREIGN CURRENCY RISK

The functional currency of the Company is sterling. The Company's profit and loss and net assets are affected by foreign currency risk, but only in respect of the investment in Adva AG Optical Networking. This investment is listed on a foreign stock exchange thus exposing the Company to foreign currency risk. Where realisations are made, the currency received is converted into sterling at the relevant spot rate as soon as possible following the transaction, thus minimising the currency risk exposure.

Other than the investment referred to above, the Company has no other currency exposure.

FAIR VALUES OF FINANCIAL ASSETS

All the financial assets of the Company are held at fair value as at 31 January 2002.

	2002 Book value and fair value £'000	2001 Book value and fair value £'000
Primary financial instruments:		
– Quoted investments	**7,388**	22,396
– Unquoted investments	**18,764**	24,523
– Cash at bank and in hand	**1,400**	3,088

The fair values of the unquoted investments have been determined according to the methods detailed in the accounting policies note on page 30.

Notes to the financial statements – continued

17 RELATED PARTY DISCLOSURES

Directors and members of their immediate families have undertaken the following transactions (purchases unless otherwise stated) in the shares of companies in which Quester VCT plc has invested. These transactions were made at the same time and on the same terms and conditions as applicable to the Company. The only exceptions to this statement being where the Company did not invest/divest as its requirements had already been fully satisfied.

	No. of directors	**2002 £'000**	No. of directors	2001 £'000
Artisan Software Tools Limited	4	5	4	50
Boxman.com Limited	–	–	5	70
CDC Solutions Limited	–	–	3	105
Elateral Holdings Limited	–	–	6	127
Orchestream Holdings plc	–	–	4	127
Sift Group Limited	–	–	3	85
Surfcontrol plc	2	75	–	–

Following the year end, directors and members of their immediate families have undertaken the following purchases of shares in companies in which the Company has previously invested. Quester VCT plc did not transact.

	No. of directors	**£'000**
Orchestream Holdings plc	1	16

Quester Capital Management Limited may, from time to time, be eligible to receive transaction fees and/or directors' fees from investee Companies. During the year ended 31 January 2002, fees of £56,000 attributable to the investments of the Company were received pursuant to these arrangements.

18 POST BALANCE SHEET EVENTS

Since 31 January 2002 Quester VCT plc has made the additional follow-on investments:

	£'000
Advanced Valve Technologies Limited	110
HTC Healthcare Group plc	125
Opsys Limited	146
Communication & Control Electronics Limited	113
	494

In March 2002, the Company sold 50 per cent of its holding in Surfcontrol for £362,000.

Corporate governance

In June 1998, the Stock Exchange published the Principles of Good Governance and Code of Best Practice ('the Combined Code') which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998. Latterly, guidance has also been issued by the Turnbull Committee on internal control.

The Board considers that the Company has complied throughout the year with the provisions of section 1 of the Combined Code.

THE BOARD

The Company has a Board of five non-executive directors, three of whom are independent of the Company's investment manager. Following amendments to the Articles in 1998, one third of all Board members are required to offer themselves for re-election each year. This year two directors therefore offer themselves for re-election at the AGM. Biographical details of all Board members are shown on page 18. The full Board usually meets at least four times a year and on other occasions as required, to review the results of the Company and to consider any appropriate recommendations by the Manager. A schedule of matters specifically reserved to the Board for its decision has been adopted. The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and of its professional advisers. Other matters specifically reserved to the Board include banking arrangements, proposals for changes to the Articles and related party transactions. The Board receives detailed management accounting information on a monthly basis and a Manager's Report with a review of operations on a quarterly basis. Any additional information is supplied on request.

All directors have access to the advice and services of the company secretary and the Board has established procedures whereby directors wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense.

A nominations or remunerations committee has not been appointed as the directors consider the Board to be small. Appointments of new directors are reserved to the full Board.

THE AUDIT COMMITTEE

The Board has appointed an Audit Committee, which operates within defined terms of reference, consisting of the three independent non-executive directors, to deal with matters relating to audit, financial reporting and internal control systems. The Audit Committee meets at least twice a year and a representative of the Auditor attends at least one of these meetings. The Audit Committee is authorised to seek any information it requires from the Manager who is directed to co-operate with any request made by the Committee. The Committee is authorised to seek outside legal advice if it considers this necessary. It is the Committee's responsibility to review interim and annual financial statements prior to publication. The Audit Committee undertakes a periodic review of the terms of the management agreement with Quester Capital Management Limited.

Tom Sooke, Simon Bakewell and Tom Scruby form the Audit Committee.

RELATIONS WITH SHAREHOLDERS

This year's AGM will be held on 28 May 2002 when shareholders will have the opportunity to meet the Board. Separate resolutions are proposed at the AGM on each substantially separate issue. Proxy votes are counted. In order to comply with the Combined Code, proxy votes will be announced at the AGM, following each vote on a show of hands, except in the event of a poll being called.

In addition to the formal business of the AGM, a brief presentation will be given by a representative of the Manager. Representatives of the Manager, the Board and the Audit Committee will be available to answer any questions a shareholder may have. In addition to the above, the Board is always pleased to respond to any written queries made by shareholders during the course of the year.

INTERNAL CONTROL

The Combined Code introduced a new requirement that the directors should, at least annually, conduct a review of the effectiveness of the Company's system of internal controls and should report to shareholders that they have done so. This extended the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

The directors are ultimately responsible for the Company's system of internal controls. Internal controls are designed to meet the particular needs of the Company and the risks to which it is exposed. They are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their very nature, can only provide reasonable and not absolute assurance against misstatement or loss. The directors have reviewed the effectiveness of the Company's internal control system during the year ended 31 January 2002.

To comply with the full guidance on internal controls, the Company has adopted a risk-based approach to reviewing internal controls. The performance of the key internal controls identified from this risk-based approach is monitored throughout the year and exception reports are presented to the Board on a quarterly basis. These reports to the Board are prepared by the management of Quester Capital Management Limited. The key risks and internal controls will be re-appraised annually by the Company's directors.

The need for an internal audit function has been considered by the Board and will be reconsidered annually. Due to the size of the business and lack of complexity, the Directors consider that the establishment of an internal audit function is unnecessary.

Currently, the key elements of internal control operating within the Company are:

- The Audit Committee, which reviews the internal control procedures adopted by the Manager.
- The Board, which is given the opportunity to review and comment on the investment proposals made by the Manager.
- The Board also approves annual budgets prepared by the Manager.
- The Board receives copies of the management accounts on a monthly basis showing comparisons with budget. These include a report by the Manager with a review of performance.

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 terms of the management agreement. Quester Capital Management Limited, which is regulated by the FSA, has established its own system of internal controls in relation to these matters on which it has reported to the Board.

By the procedures set out above, and in accordance with the Turnbull Guidance for directors on the Combined Code published by the Institute of Chartered Accountants in England and Wales, the directors have kept under review the effectiveness of the internal controls throughout the year.

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 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.

Notice of annual general meeting

Notice is hereby given that the sixth Annual General Meeting of Quester VCT plc will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 10.00 a.m. on 28 May 2002 for the following purposes:

AS ORDINARY BUSINESS

1. **Annual Report and Accounts**

   To receive, consider and adopt the annual report and accounts for the year ended 31 January 2002

   The directors usually present the annual report and accounts for the previous year to shareholders at an Annual General Meeting. The annual report and accounts for the year ended 31 January 2002 are set out in this document.

2. **Re-election of directors who are retiring under the Company's Articles of Association**

   (a) To re-elect Tom Scruby as a director.

   (b) To re-elect Andrew Holmes as a director.

   In accordance with the Company's Articles of Association and the Combined Code on Corporate Governance issued by the UK Listing Authority, both Tom Scruby and Andrew Holmes retire at the Annual General Meeting by rotation and, being eligible, offer themselves for re-election. Brief biographical details of Tom Scruby and Andrew Holmes appear on page 18.

3. **The Auditor**

   To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to fix its remuneration.

   The Company has to appoint auditors at every general meeting at which accounts are presented to shareholders. It is normal practice for the Company's directors to be authorised to agree the auditor's fees.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions of which resolutions 4 and 5 shall be proposed as ordinary resolutions and resolutions 6 and 7 shall be proposed as special resolutions:

4. **Increase in authorised share capital**

   THAT the authorised share capital of the Company be and is hereby increased from £1,855,000 to £2,200,000 by the creation of 6,900,000

new ordinary shares of nominal value 5p each, such shares having attached thereto the rights set forth in the Articles of Association of the Company.

Following completion of the £3 million share issue referred to in the Directors' Report, the Company will have insufficient authorised but unissued share capital. The proposed increase will provide sufficient authorised but unissued share capital to enable the Company in due course to issue shares to the maximum extent potentially required under the performance incentive arrangements referred to in note 11 to the financial statements as well as to issue approximately 5 million further shares subject to the restrictions imposed by resolutions 5 and 6.

5. **Authority to allot shares**

THAT the directors of the Company be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of, in the event that resolution 4 is passed, £436,058.95 or, in the event that resolution 4 is not passed, £91,058.95 provided that:

(i) such authority shall expire on the day five years after the date of passing of this resolution;

(ii) notwithstanding paragraph (i) above, this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offer or agreement; and

(iii) all previous authorities under section 80 of the Act be and they are hereby revoked.

Resolution 5 proposes, as an ordinary resolution, to grant the directors authority to allot relevant securities of the Company (as that term is defined in the Companies Act 1985). If resolution 4 is passed, the maximum number of relevant securities that the directors could allot under this authority is 8,721,179 which, represents approximately 24.7 per cent of the current issued share capital of the Company. If resolution 4 is not passed, the maximum number of relevant securities that the directors could allot is 1,821,719 which represents approximately 5.2 per cent of the current issued share capital of the Company. The directors have no present intention to exercise this authority; however, further shares may have to be allotted, inter alia, in connection with the dividend reinvestment scheme or the Subscription Share Option Agreement referred to in note 11 to the financial statements. The authority will lapse five years after it is passed.

6. **Authority for the disapplication of pre-emption rights**

THAT, in accordance with section 95 of the Act, the directors be and they are hereby empowered to allot equity securities (as defined in sub-section (2) of section 94 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) contained in resolution 5 above as if sub-section (1) of section 89 of the Act did not apply to the allotment, provided that the power hereby conferred shall be limited to:

(i) the allotment of equity securities in connection with an issue or offering 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; and

(ii) the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal value not exceeding £176,394.10;

and this power, unless renewed, shall expire at the conclusion of the Annual General Meeting of the Company in 2003 or the date which is fifteen months from the date of this resolution, whichever is the earlier, but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

At the Annual General Meeting of the Company held on 28 May 2001 the directors were empowered to allot shares for cash otherwise than in accordance with the statutory pre-emption rights of shareholders. This power expires unless renewed at the conclusion of this Annual General Meeting. 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 it is appropriate to renew the power at this Annual General Meeting. The above 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 £176,394.10, which is equivalent to 10 per cent of the current 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 the Resolution, whichever is the earlier.

7. Authority for the Company to buy back its own shares

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

(i) the maximum number of Ordinary Shares authorised to be purchased is 3,527,882;

(ii) the minimum price which may be paid for an Ordinary Share is 5p;

(iii) 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 Official List of the UK Listing Authority for the five dealing days immediately preceding the day on which the Ordinary Share is purchased;

(iv) the authority hereby conferred shall expire on the earlier date which is fifteen months from the date of this resolution and the date of the Annual General Meeting of the Company in 2003; and

(v) the Company may enter into a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which would or might be executed and completed wholly or partly after the expiry of such

authority and may make purchases of Ordinary Shares in pursuance of any such contract or contracts.

The directors consider that it may in certain circumstances be advantageous for the Company to be able to purchase its own shares. Occasional market purchases by the Company of its own shares provide a measure of liquidity in the market for the Company's shares and can enhance the net asset value per share for the Company's remaining shareholders. Accordingly, the above resolution proposes, as a special resolution, to renew the existing power of the Company to purchase its own shares, up to a maximum number of 3,527,882 ordinary shares representing 10 per cent of the total number of shares currently in issue.

The maximum price which may be paid for an ordinary share will be an amount which is not more than 5 per cent above the average of the mid-market quotations of the ordinary shares as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the date of purchase, and in any event may not exceed the most recently reported net asset value. The purchase of ordinary shares will involve a stamp duty cost to the Company of approximately 0.5 per cent of the purchase price. Shares that are purchased will be cancelled.

In accordance with the Listing Rules of the UK Listing Authority, the Company will not make purchases during the two-month periods immediately preceding the announcement of its year-end results and half-year results or the period from the end of the financial period until the announcement of results, if shorter.

The power expires at the end of the annual general meeting to be held in 2003 or the date fifteen months from the date of the resolution, whichever is the earlier. The power will be exercised only if, in the opinion of the directors, a purchase by the Company of its own shares would be in the interests of shareholders generally.

By order of the Board
MG Williams M. G. Williams
Secretary

29 Queen Anne's Gate
London, SW1H 9BU
22 April 2002

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be members of the Company) to attend and, on a poll, vote in his/her place.

2. To be valid, a form of proxy, duly signed, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of such power or authority) must be lodged with the Company's registrars, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR by not later than 10.00 a.m. on 26 May 2002. Completion of a form of proxy will not affect the right of a member to attend and vote at the meeting in person.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of members of the Company at 10.00 a.m. on 27 May 2002 will be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned, the time by which a person must be entered in the register of members in order to have the right to attend or vote at the adjourned meeting is 10.00 a.m. on the day preceding the date fixed for the adjourned meeting. Changes to entries in the register after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of directors' service contracts and the register of directors' interests in the Company's shares will be made available for inspection at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.

Shareholder information

DIVIDENDS

No dividend is proposed in respect of the year ended 31 January 2002.

ANNUAL GENERAL MEETING — 10.00 A.M. ON 28 MAY 2002

The notice of Annual General Meeting is contained in this report. A proxy form is enclosed with this circular together with a pre-paid reply envelope. To be valid, completed proxy forms should be returned to the Company's registrars, Capita IRG Plc, no later than 10.00 a.m. on 26 May 2002.

SHARE PRICE AND NET ASSET VALUE ANNOUNCEMENTS

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

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

DIVIDEND REINVESTMENT SCHEME

A dividend reinvestment scheme has been created to allow shareholders to reinvest their dividends if they so wish. The details of the scheme are contained in the circular dated 28 September 2001 sent to shareholders. Shareholders who have not already done so may elect to join the scheme and should do so by notifying the Company's registrars, Capita IRG Plc, in writing. Copies of the scheme's terms and conditions may be obtained from the Secretary.

Shareholders are reminded that the election to reinvest dividends is an enduring declaration and so applies to all future dividends paid by the Company. In order to cancel this enduring declaration, a written instruction must be sent to Company's registrars, Capita IRG Plc.