QUESTER VCT plc
Company number: 3139019

Annual Report 2005

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

The objective of Quester VCT plc is to provide shareholders with an attractive income and capital return by investing in a broadly spread portfolio consisting largely of unquoted investments with strong growth prospects and also including quoted equities and fixed interest securities.

Dividends paid by Quester VCT plc, as an approved venture capital trust, are tax free to eligible shareholders. This applies to dividends derived both from income and from capital gains. This substantially enhances the effective returns to eligible subscribers for shares or purchasers of shares on the London Stock Exchange.

Eligible shareholders are reminded that a sale of their shareholding in Quester VCT plc may give rise to a loss of any capital gains deferral granted at the time of their original subscription.

Per ordinary share (pence)	28 February 2005	31 January 2004	31 January 2003
Capital values			
Net asset value	**44.1**	50.1	58.4
Share price	**44.0**	45.0	54.0
Returns and Dividends			
Dividend	**–**	–	–
Cumulative dividend	**41.5**	41.5	41.5
Total return*	**85.6**	91.6	99.9

*Net asset value plus cumulative dividend

COMPOSITION OF THE FUND BY VALUE

	%
Venture capital investments (quoted 9.1%, unquoted 43.0%)	52.1
Listed fixed interest investments*	18.4
Listed equity investments*	16.0
Cash and other net current assets*	13.5
	100.0

*Retained as a reserve for potential future venture capital investment

CHAIRMAN'S STATEMENT

OVERVIEW

As shareholders will be aware, it was announced on 31 January 2005 that the Board of Quester VCT plc had entered into merger discussions with the Boards of Quester VCT 2 plc and Quester VCT 3 plc. In order to align itself with these two companies, the Company's reporting date has been moved from 31 January to 28 February. This has resulted in a thirteen month accounting period, which is covered in this Annual Report.

During this period, the Company's net asset value per share reduced by 6.0p per share to 44.1p. After taking account of share buy-backs of £370,000, the net asset value fell from £17.1 million to £14.7 million over the period. The movement in the net asset value attributable to the ordinary shareholders can be summarised as follows:

	£'000	Pence per share
Net asset value at 31 January 2004	17,058	50.1
Income	457	1.4
Operating costs including investment management fee	(616)	(1.8)
Net realised loss on investments	(893)	(2.7)
Net unrealised loss on revaluation of investments, including an amount held in debtors	(985)	(2.9)
Share buy-backs*	(370)	-
Net asset value at 28 February 2005	**14,651**	**44.1p**

*Share buy-backs have enhanced the net asset value per share by 0.02 pence per share

RESULTS AND DIVIDENDS

The profit and loss account shows a net loss for the period of £1.1 million. This is made up of investment income of £457,000, less net losses on realisation of investments of £893,000, less operating costs including the management fee of £616,000.

The statement of recognised gains and losses, which includes net unrealised losses on investments of £0.9million as well as the loss of £1.1 million reported in the profit and loss account, shows an aggregate loss for the period of £2.0 million. Against this background, your directors do not propose a dividend in respect of the period ended 28 February 2005.

INVESTMENT PORTFOLIO

As at 28 February 2005, the Company's venture capital portfolio comprised sixteen unquoted and six quoted investments. The portfolio is diversified and includes companies operating in a broad range of markets with growth potential, principally within technology related sectors.

The venture capital portfolio was valued at £7.6 million as at 28 February 2005, compared with £9.0 million at the beginning of the period. Changes during the period comprised purchases of £864,000, which included one new investment in Allergy Therapeutics plc (£182,000), disposals with a carrying value of £860,000 and net realised and unrealised losses recognised during the period of £1.4million.

In addition, an earnout entitlement, which was previously valued at £841,000 and is recorded in the balance sheet under debtors, has been provided for in full at the period end.

Within the venture capital portfolio, the quoted investments gave rise to an unrealised net gain of £225,000 on revaluation, and whilst net unrealised losses of £1.6 million arose from a revaluation of the unquoted investments, including the earnout entitlement provision referred to above.

The listed equity portfolio, which is focused on shares within the FTSE 350 index, performed positively during the period rising from £2.0 million at the start of the 13 month period to close at a value of £2.3 million at 28 February 2005.

Further details of investment performance are provided in the Investment Manager's report commencing on page 4.

MERGER DISCUSSIONS

As mentioned above, discussions have been held with the boards of Quester VCT 2 plc and Quester VCT 3 plc to see whether a merger of the three funds might be in the best interests of shareholders. Following these discussions, your Board believes that the merged entity will benefit shareholders through, amongst other things, a portfolio with greater spread and proportionately reduced running costs. Your directors will be writing to shareholders with a full explanation of these benefits and details of the proposed merger.

CHANGE OF CORPORATE BROKER AND MARKET MAKERS

In July 2004 the Company appointed Noble & Company Limited as its corporate broker, replacing Evolution Beeson Gregory Limited. Following this change, Winterflood Securities Limited became market makers in the Company's shares.

OUTLOOK

Your Board's wish is to achieve realisations from the portfolio and pay dividends to shareholders. As you will see from the merger documentation, the merged company, if you and the shareholders of the other two VCT's approve the transaction, intends to pursue the process of selling investments and distributing part of the proceeds to shareholders, while reinvesting the balance in new venture capital opportunities.

Tom Scruby
Chairman

12 May 2005

INVESTMENT MANAGER'S REPORT

INTRODUCTION

The fall in the Company's net asset value during the period was caused principally by provisions made against the value of the unquoted venture capital portfolio. The quoted venture capital portfolio and the FTSE quoted portfolio, held as a reserve against investments in the venture capital portfolio, achieved gains of 21.5% and 19.3% respectively (total return). The performance of the unquoted portfolio was, therefore, a disappointment compared with the quoted market performance, as there were only two small unquoted investment valuation increases to set against the provisions made of £2.9million.

PROGRESS OF THE VENTURE CAPITAL PORTFOLIO

During the thirteen months to 28 February 2005, one new and six follow-on investments were completed at a cost of £864,000.

A new investment was made in Allergy Therapeutics plc, an established £18 million turnover company with a range of allergy vaccines currently in the market and a programme for development of novel vaccines offering the potential for achievement of significant market expansion. Quester VCT invested £182,000 at the time of Allergy Therapeutics's capital raising on AIM. At 28 February 2005, this investment was showing an unrealised gain of £67,000.

The follow-on investments included additional commitments to Advanced Valve Technologies Limited (£125,000), Anadigm Limited (£80,000), The Casella Group Limited (£141,000), Linguaphone Group plc (£64,000), Nomad Software Limited (£263,000) and Opsys Management Limited (£9,000).

REALISATIONS

During the period, two unquoted investments were sold, one realising a profit and the other a loss while further cash proceeds have been generated either from repayments of capital made by companies in which Quester VCT has invested in, or from small amounts recovered where investments had previously been written-off.

As reported at the interim stage, Chelsea Stores Limited was sold during the period for £391,000 producing a gain of £109,000, being 39% over carrying value. The cumulative gain over cost on this investment, combined with the earlier realisation of the associated investment in HMV Media Group, was £183,000, equivalent to a 5.8% gain over the cost of the two investments. As also previously reported, the investment in Communication and Control Electronics Limited had been written down to a value of £140,000. By the period end, £112,000 had been received in cash from the process of administration, recovering some 20% of the original cost, with the balance now fully written off. Further cash proceeds were generated from other companies, including Bowman Power Systems Limited (£51,000), Dycem Limited (£158,000), International Diagnostics Group plc (£30,000) and Methuen Publishing Limited (£80,000).

VALUATION CHANGES APPLIED TO VENTURE CAPITAL INVESTMENTS

Holdings in the venture capital investments in companies whose shares are either listed or traded on AIM are valued on the basis of mid-market price on 28 February 2005, less a discount, if appropriate, to reflect any lock-up or orderly market arrangements. During the period, these quoted investments showed a net appreciation in value of £225,000. This was largely driven by gains in the investments in Crown Sports (£146,000), Allergy Therapeutics (£67,000) and Surfcontrol (£50,000), offset by an unrealised loss in XKO Group (£59,000).

The two unquoted companies to benefit from an uplift in their respective valuations were Dycem (an increase of £185,000), the manufacturer of specialist polymer flooring, and International Resources Group (£250,000), the executive search and selection firm. Both companies have enjoyed solid trading performance during 2004.

Provisions to reflect trading behind plan during the period have been made against Advanced Valve Technologies Limited (£349,000), Anadigm Limited (£224,000), The Casella Group Limited (£72,000), HTC Healthcare Group plc (£543,000), Linguaphone Group plc (£356,000), Opsys Management Limited (£294,000) and Nomad Software Limited (£181,000). Some of these downwards revaluations are considered permanent and, as such, these elements have been treated as realised. In addition, the earnout entitlement held in connection with the sale of CDC Solutions Limited in 2003 has been valued at £nil, a reduction of £841,000. It is still possible that some value will be derived from this entitlement based on 2005 and 2006 performance but, based on 2004 performance, it has been appropriate to reduce its carrying value.

SECTOR ANALYSIS OF THE VENTURE CAPITAL PORTFOLIO

The portfolio is balanced by sector and is well spread. A summary of the sectors covered by the portfolio at 28 February 2005 is provided in the table below:

Industry sector	Percentage of portfolio at valuation %	Valuation at 28 February 2005 £'000	Number of Investments
Software	30.9%	2,361	8
Industrial products & services	23.1%	1,766	4
Internet	11.2%	856	2
Publishing	8.8%	671	1
Healthcare & life sciences	8.7%	663	2
Consumer services	6.0%	457	1
Leisure	5.0%	384	1
Semiconductors	3.3%	252	1
Consumer goods	1.7%	128	1
Electronics	1.3%	98	1
	100.0	7,636	22

RESERVES FOR FOLLOW-ON INVESTMENT

The overall reserves requirement to support the existing venture capital portfolio has reduced during the year. This has freed up liquid resources for investment in new venture capital opportunities: the new investment in Allergy Therapeutics reflects this change of emphasis for Quester VCT and the opportunity to make new investments. A further small investment has been made since the year end and there are others in the pipeline.

LISTED EQUITY AND FIXED INTEREST PORTFOLIOS

At the period end, the values of the listed equity and fixed interest (bond) portfolios were £2,348,000 and £2,693,000 respectively. As at this date, the listed equity portfolio was comprised

INVESTMENT MANAGER'S REPORT (CONTINUED)

of 25 investments and during the thirteen months to 28 February 2005 it generated a total return of 19.3% being comprised of realised and unrealised gains of £319,000 and a dividend yield of £92,000.

OUTLOOK

The proposed merger with Quester VCT 2 and Quester VCT 3 is designed to produce operating efficiency, reduced costs and a fundamental change to the shape and spread of the venture capital portfolio. If market conditions for exits remain favourable, there is potential for an enlarged portfolio to achieve exits across a wider spread of companies. Our objective is to continue to focus on the exit process in order to deliver cash for dividend payments and continued re-investment in new venture capital opportunities.

Quester Capital Management Limited
Manager

12 May 2005

FUND SUMMARY

AS AT 28 FEBRUARY 2005

	Industry sector	Original Cost £'000	Valuation £'000	Equity % held	% of fund by value
Quoted venture capital investments					
Allergy Therapeutics plc	Healthcare & life sciences	182	249	0.4%	1.7%
Crown Sports plc	Leisure	475	384	1.4%	2.6%
Sirius Financial Solutions plc	Software	144	71	0.5%	0.5%
Sopheon plc	Software	150	36	0.3%	0.2%
Surfcontrol plc	Software	91	258	0.3%	1.8%
XKO Group plc	Software	506	341	1.5%	2.3%
Total quoted venture capital investments		**1,548**	**1,339**		**9.1%**
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	2,491	349	11.1%	2.4%
Anadigm Limited	Semiconductors	1,588	252	5.1%	1.7%
Artisan Software Tools Limited	Software	1,377	450	9.3%	3.1%
Casella Group Limited, The	Industrial products & services	1,206	645	6.7%	4.4%
Community Internet Europe Limited	Internet	508	127	3.5%	0.9%
Dycem Limited	Industrial products & services	187	372	37.5%	2.5%
Elateral Holdings Limited	Software	1,942	61	7.2%	0.4%
HTC Healthcare Group plc	Consumer services	1,000	457	18.4%	3.1%
International Diagnostics Group plc	Healthcare & life sciences	900	414	14.3%	2.8%
International Resources Group Limited	Industrial products & services	32	400	4.0%	2.7%
Linguaphone Limited	Consumer goods	904	128	5.7%	0.9%
Methuen Publishing Limited	Publishing	671	671	26.2%	4.6%
Nomad Software Limited	Software	1,374	444	8.1%	3.0%
Opsys Management Limited*	Electronics	1,392	98	–	0.7%
Sibelius Software Limited	Software	700	700	6.0%	4.8%
Sift Group Limited	Internet	875	729	5.0%	5.0%
Total unquoted venture capital investments		**17,147**	**6,297**		**43.0%**
Total venture capital investments		**18,695**	**7,636**		**52.1%**
Listed fixed interest investments		**2,699**	**2,693**		**18.4%**
Listed equity investments		**2,230**	**2,348**		**16.0%**
Total investments		**23,624**	**12,677**		**86.5%**
Cash and other net current assets		**1,974**	**1,974**		**13.5%**
Net assets		**25,598**	**14,651**		**100.0%**

*Formerly Opsys Limited.

TEN LARGEST VENTURE CAPITAL INVESTMENTS

SIBELIUS SOFTWARE LIMITED

www.sibelius.com

Initial Investment:	November 1999
Cost:	£700,000
Valuation:	£700,000
Equity held:	6.0%
Valuation basis:	Cost

Co-investing Quester funds*: VCT 2

Latest published results:	30.04.2004	30.04.2003
Turnover:	£6,204,000	£4,917,000
Profit before tax:	£502,000	£170,000
Retained profits/(losses):	£236,000	(£163,000)
Net assets:	£1,531,000	£1,132,000

A well-established company, headquartered in London, with its US subsidiary Sibelius USA Inc in California. Sibelius is the world's best-selling music notation software, used by professional and amateur composers as well as universities and schools. More than 100,000 people in over 100 countries use Sibelius Software's technology. The company has quadrupled in size since Quester made its initial investment.

SIFT GROUP LIMITED

www.sift.co.uk

Initial Investment:	November 1999
Cost:	£875,000
Valuation:	£729,000
Equity held:	5.0%
Valuation basis:	Cost less provision

Co-investing Quester funds*: VCT 2, VCT 3, VCT 4

Latest published results:	31.12.2004	31.12.2003
Turnover:	£4,022,000	£3.972,000
Profit before tax:	£208,000	£196,000
Retained losses:	(£7,911,000)	(£8,119,000)
Net assets:	£477,000	£269,000

An innovative company specialising in developing 'virtual communities' over the internet. Sift develops community portals and knowledge management applications, offering clients a modular technology platform, supported by a best practice programme, site management and consultancy services. In 2004 the company generated revenues of £4 million and further significant growth is expected as enterprises look to outsource their online community management requirements.

METHUEN PUBLISHING LIMITED

www.methuen.co.uk

Initial Investment:	July 1998
Cost:	£671,000
Valuation:	£671,000
Equity held:	26.2%
Valuation basis:	Cost

Co-investing Quester funds*: VCT 2

Latest published results:	30.06.2004[x]	30.06.2003
Turnover:	£2,554,000	£2,184,000
Profit/(loss) before tax:	£3,000	(£204,000)
Retained losses:	(£782,000)	(£728,000))
Net liabilities:	(£391,000)	(£337,000)

A specialist publisher focusing on drama and theatre publications by a host of well-known writers. Methuen's catalogue includes the most comprehensive collection of both classic and contemporary works in these fields. The company is pursuing a strategy to expand their general publishing by commissioning new books and reissuing many of the famous titles in their back catalogue in addition to those in their specialist areas.

* VCT 2: Quester 2 VCT plc; VCT 3: Quester VCT 3 plc; VCT 4: Quester VCT 4 plc; VCT 5: Quester VCT 5 plc; QVP: Quester Venture Partnership.

x Unaudited and unpublished.

CASELLA GROUP LIMITED, THE

www.casella.co.uk

Initial Investment:	April 2000
Cost:	£1,206,000
Valuation:	£645,000
Equity held:	6.7%
Valuation basis:	Cost less provision
Co-investing Quester funds*: VCT 2, VCT 3	

Latest published results:	**30.06.2004**	**30.06.2003**
Turnover:	£36,141,000	£38,073,000
Loss before tax:	(£2,431,000)	(£5,465,000)
Retained losses:	(£16,638,000)	(£14,144,000)
Net liabilities:	(£7,987,000)	(£5,493,000)

Casella Group offers a comprehensive range of environmental services and products to a diverse client base including central and local government, retail, leisure, property, finance and banking. The Group has undergone a turnaround phase in its development and this is reflected in the drop in turnover. However, this phase is now complete and the company is concentrating on strengthening its market position and delivering strong growth going forward.

HTC HEALTHCARE GROUP PLC

www.happytimes.co.uk

Initial Investment:	September 1999
Cost:	£1,000,000
Valuation:	£457,000
Equity held:	18.4%
Valuation basis:	Cost less provision
Co-investing Quester funds*: VCT 2, VCT 4, VCT 5	

Latest published results:	**31.03.2004**	**31.03.2003**
Turnover:	£2,755,000	£2,788,000
Loss before tax:	(£230,000)	(£277,000)
Retained losses:	(£1,290,000)	(£1,060,000)
Net assets:	£2,004,000	£113,000

HTC Healthcare Group runs Happy Times day nurseries. Happy Times is a well-known and growing nursery group in southwest London, providing high quality childcare. The group operates three nurseries in Battersea, Hammersmith and Richmond and will be opening a fourth in Fulham later this year.

ARTISAN SOFTWARE TOOLS LIMITED

www.artisansw.com

Initial Investment:	March 1998
Cost:	£1,377,000
Valuation:	£450,000
Equity held:	9.3%
Valuation basis:	Cost less provision
Co-investing Quester funds*: VCT 2, VCT 3	

Latest published results:	**31.12.2003**	**31.12.2002**
Turnover:	†	†
Profit before tax:	†	†
Retained losses:	(£9,918,000)	(£9,880,000)
Net assets:	£1,016,000	£1,054,000

A leading supplier of innovative software modelling solutions that accelerate the development of real-time systems. Real-time Studio is a suite of development tools that enables design teams to capture software and system design, automate and integrate them into a complete process, without disrupting existing development environments. The company continues to show progress and made a profit of £90,000 in 2004.

* VCT 2: Quester 2 VCT plc; VCT 3: Quester VCT 3 plc; VCT 4: Quester VCT 4 plc; VCT 5: Quester VCT 5 plc; QVP: Quester Venture Partnership.

† Abbreviated accounts only, therefore information is unavailable.

TEN LARGEST VENTURE CAPITAL INVESTMENTS (CONTINUED)

NOMAD SOFTWARE LIMITED

www.nomadsoft.co.uk

Initial Investment:	March 2000
Cost:	£1,374,000
Valuation:	£444,000
Equity held:	8.1%
Valuation basis:	Cost less provision

Latest published results:	31.12.2003	31.12.2002
Turnover:	£3,345,000	£2,232,000
Loss before tax:	(£804,000)	(£4,091,000)
Retained losses:	(£7,496,000)	(£6,760,000)
Net assets:	£280,000	£1,016,000

Co-investing Quester funds*: VCT 2, VCT 4, QVP

Nomad Software supplies electronic payment solutions based around its Nomad Cortex product set to banks and financial institutions throughout Europe and the Middle East. The company has recently undertaken a company-wide reorganisation and made new appointments to enable it to meet the growing demand for secure payment processing and target new territories and markets. This has included the set up of a new broker device, enabling banks and building societies to issue debit cards to their institutions.

INTERNATIONAL DIAGNOSTICS GROUP PLC

www.idgplc.com

Initial Investment:	October 1998
Cost:	£900,000
Valuation:	£414,000
Equity held:	14.3%
Valuation basis:	Cost less provision

Latest published results:	30.04.2004	30.04.2003
Turnover:	£3,308,000	£7,282,000
Profit/(loss) before tax:	£176,000	(£140,000)
Retained losses:	(£3,215,000)	(£3,391,000)
Net assets:	£199,000	£23,000

Co-investing Quester funds*: VCT 2

IDG operates in the bioscience sector, specialising in the development, manufacture and distribution of high quality products and services for microbiological analysis and quality assurance programmes. The company markets its products and services in the UK and overseas with particular emphasis on food safety. After a major group reorganisation, which involved the disposal of a loss making subsidiary, profitable trading has been achieved.

INTERNATIONAL RESOURCES GROUP LIMITED

www.irgltd.com

Initial Investment:	February 1998
Cost:	£32,000
Valuation:	£400,000
Equity held:	4.0%
Valuation basis:	Earnings Multiple

Latest published results:	31.12.2004[x]	31.12.2003
Turnover:	£19,110,000	£25,191,000
Profit before tax:	£1,555,000	£1,244,000
Retained profit/(loss):	£1,141,000	(£443,000)
Net assets:	£2,649,000	£1,190,000

Co-investing Quester funds*: –

IRG trades as Odgers International Limited, a leading recruitment firm based in London. The company is one of the top ten search firms recruiting high calibre personnel for prestigious clients, which include major institutions as well as fast growing entrepreneurial businesses. The company has grown significantly over recent years and its trading performance is satisfactory.

* VCT 2: Quester 2 VCT plc; VCT 3: Quester VCT 3 plc; VCT 4: Quester VCT 4 plc; VCT 5: Quester VCT 5 plc; QVP: Quester Venture Partnership.

x Unaudited and unpublished.

CROWN SPORTS PLC www.crownsportsplc.com

Initial Investment:	January 2001
Cost:	£475,000
Valuation:	£384,000
Equity held:	1.4%
Valuation basis:	Mid-market price
Co-investing Quester funds*: –	

Latest published results:	31.12.2004	31.12.2003
Turnover:	£22,859,000	£26,321,000
Profit/(loss) before tax:	£3,291,000	(£1,981,000)
Retained profit/(loss):	£151,000	(£26,855,000)
Net assets:	£50,344,000	£48,759,000

A health and fitness club operator with 21 Health Clubs and over 50,000 members in the UK. Over the past year the company's strategy of focusing on the health and fitness sector and disposing of non-core business has seen an uplift in profitability and further reductions in debt levels. The market remains challenging in the short term however the company continues to make progress reflecting in growing membership levels.

* VCT 2: Quester 2 VCT plc; VCT 3: Quester VCT 3 plc; VCT 4: Quester VCT 4 plc; VCT 5: Quester VCT 5 plc; QVP: Quester Venture Partnership.

DIRECTORS

TOM SCRUBY (70), Chairman, is non-executive chairman of the Linguaphone Group plc and a non-executive director of Centaur Holdings plc. Tom Scruby has many years' experience of investment in, and management and direction of, smaller companies. 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 (49) is a founding director of Nelson Bakewell Group established in 1982.This includes Nelson Bakewell Property Consultants which advises a wide spectrum of UK and international companies on property related matters and NB Ventures which invests in UK property in joint venture. He has a broad experience of property and general business issues facing smaller companies. He is a member of the Audit Committee.

TOM SOOKE (60) has considerable experience of the venture capital industry and is currently also on the board of Matrix Income & Growth VCT plc. In recent years he has been chairman and non-executive director of a number of quoted and unquoted private equity funds and other companies. Previously, up until 1991, he was a partner in Deloitte & Touche, co-managing the firm's corporate advisory group in London. Prior to that he was a main board director and corporate finance director at Granville Holdings plc, where he also established and ran its main private equity fund activities from 1980 to 1987. In 1983, whilst with Granville, he was also one of the co-founding members of the British Venture Capital Association. He is chairman of the Audit Committee.

As part of the proposed merger process, Andrew Holmes and John Spooner resigned as directors of the Company on 31 January 2005 to assist the independent evaluation of the merger proposals by the Board.

All the directors are non-executive. Tom Scruby, Simon Bakewell and Tom Sooke are independent of the Manager. Tom Sooke retires by rotation and offers himself for re-election at the Annual General Meeting to be held on 13 June 2005.

DIRECTORS REPORT

The directors present their report and the audited financial statements for the period ended 28 February 2005.

ACTIVITIES AND STATUS

The principal activity of the Company during the period was the making of equity investments, mainly in unquoted companies. The Company has been granted provisional approval by the Inland Revenue as a venture capital trust in accordance with Section 842AA of the Income and Corporation Taxes Act 1988. In the opinion of the directors, the Company has conducted its affairs so as to enable it to continue to maintain such approval. The Company was not at any time up to the date of this report a close company within the meaning of Section 414 of that Act.

The Company's ordinary shares of 5p each have been listed on the Official List of the UK Listing Authority since 3 April 1996.

The Company has no subsidiaries.

REVIEW OF THE BUSINESS

The Chairman's Statement and Investment Manager's Report commencing on pages 2 and 4 respectively include a review of developments during the period and of future prospects.

RESULTS AND DIVIDEND

The accounting reference date of the company was changed from 31 January to 28 February, extending the current accounting period to 13 months. Subsequent accounting periods will now end on the new accounting reference date of 28 February.

This change in accounting reference date was effected to align it with those of Quester VCT 2 plc and Quester VCT 3 plc, the companies with whom Quester VCT is holding merger discussions.

The net loss attributable to shareholders for the period ended 28 February 2005 was £1,052,000. The Board does not recommend the payment of a dividend in respect of the period.

As at 28 February 2005, the Company had accumulated unrealised capital losses of £1,474,000 and retained a positive balance on the profit and loss account of £3,042,000 following a transfer during the period of £6,167,000 from the special reserve.

The mid-market price of Quester VCT plc's shares as at close of business on 28 February 2005 was 44.0p per share. The mid-market price ranged from 39.0p to 45.0p during the period.

CORPORATE GOVERNANCE

A report on corporate governance is set out on pages 28 and 29. The directors' remuneration report is set out on page 30.

BUY-BACK CANCELLATION OF SHARES

During the period 844,534 ordinary shares of 5p each, representing 2.5% of the issued share capital, were bought in by the Company for cancellation at a total cost of £370,000. The impact on the net asset value was to increase it by 0.02p per share.

DIRECTORS REPORT (CONTINUED)

DIRECTORS

The directors of the Company during the period and their interests in the issued ordinary shares of 5p each of the Company at 28 February 2005 and as at the date of this report were as follows:

	28 February 2005	31 January 2004
BTR Scruby (Chairman)	**30,000**	30,000
SM Bakewell	**20,000**	20,000
APG Holmes (resigned 31 January 2005)	**335,329**	335,329
TP Sooke	**22,500**	22,500
JA Spooner (resigned 31 January 2005)	**470,105**	470,105

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. According to the register of directors' interests no right to subscribe for shares in the Company was granted to, or exercised by, any 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 ("QCML"), the manager). They are also executive directors of QCML. APG Holmes, JA Spooner and their immediate families, including family trusts, and an employee benefit trust hold options to subscribe for shares under the Subscription Share Option Agreement referred to in note 11 to the financial statements.

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 period in which any director was materially interested. Disclosures required by Financial Reporting Standard (FRS) 8, 'Related Party Disclosures' are set out in note 18 of the financial statements.

APG Holmes and JA Spooner resigned as directors on 31 January 2005.

MANAGEMENT

QCML is the Investment Manager to the Company. The principal terms of the Company's management agreement with QCML, as applicable during the period ended 28 February 2005, are set out in note 3 of the financial statements.

UBS Laing & Cruickshank Limited is the adviser to the Company in respect of investments in listed equities and fixed interest securities and has limited discretion to manage this portfolio of investments.

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 28 February 2005 there were 9 days billings from the suppliers of services outstanding (2004: 3 days).

SUBSTANTIAL SHAREHOLDINGS

As at 28 February 2005 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of any class of the issued share capital.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 2.30 p.m. on 13 June 2005. Accompanying this document is a circular to shareholders containing notice of the Annual General Meeting.

MERGER

A proposal is being put to shareholders for a merger with Quester VCT 2 plc and Quester VCT 3 plc.

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 M.C. Williams

Secretary

12 May 2005

PROFIT AND LOSS ACCOUNT

FOR THE 13 MONTH PERIOD ENDED 28 FEBRUARY 2005

	Notes	**2005 (13 months) £'000**	2004 (12 months) £'000
Loss on realisation of investments	8(c)	**(893)**	(1,169)
Income	2	**457**	456
Investment management fee	3	**(331)**	(387)
Other expenses	4	**(285)**	(287)
Loss on ordinary activities before taxation		**(1,052)**	(1,387)
Tax on ordinary activities	6	**–**	–
Loss on ordinary activities after taxation		**(1,052)**	(1,387)
Dividends paid and proposed		**–**	–
Transfer from reserves		**(1,052)**	(1,387)
Basic and diluted loss per share	7	**(3.1)p**	(4.0)p

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 loss per share.

The accompanying notes are an integral part of this statement.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE 13 MONTH PERIOD ENDED 28 FEBRUARY 2005

	Notes	2005 (13 months) £'000	2004 (12 months) £'000
Loss on ordinary activities after taxation		**(1,052)**	(1,387)
Net unrealised loss on revaluation of investments	8(b)	**(235)**	(1,550)
Unrealised loss on write-down of debtors	9	**(750)**	–
Total losses recognised during the period		**(2,037)**	(2,937)
Total recognised losses per share	7	**(6.0)p**	(8.5)p

The accompanying notes are an integral part of this statement.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE 13 MONTH PERIOD ENDED 28 FEBRUARY 2005

	Notes	2005 (13 months) £'000	2004 (12 months) £'000
Reported loss on ordinary activities before taxation		**(1,052)**	(1,387)
Realisation of prior years' net unrealised losses on investments	12	**(5,155)**	(597)
Historical cost loss on ordinary activities before taxation		**(6,207)**	(1,984)
Historical cost loss for the period retained after taxation and dividends		**(6,207)**	(1,984)

The accompanying notes are an integral part of this statement.

BALANCE SHEET

AS AT 28 FEBRUARY 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Investments	8(a)	**12,677**	14,049
Current assets			
Debtors	9	**793**	1,721
Cash at bank		**1,518**	1,716
		2,311	3,437
Creditors (amounts falling due within one year)	10	**(337)**	(428)
Net current assets		**1,974**	3,009
Net assets		**14,651**	17,058
Capital and reserves			
Called-up equity share capital	11	**1,661**	1,704
Share premium account	12	**3,410**	2,787
Special reserve	12	**8,012**	15,129
Revaluation reserve	12	**(1,474)**	(5,644)
Profit and loss account	12	**3,042**	3,082
Total equity shareholders' funds		**14,651**	17,058
Net asset value per share	13	**44.1p**	50.1p

The financial statements on pages 16 to 27 were approved by the directors on 12 May 2005 and were signed on their behalf by:

Tom Sooke
Director

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE 13 MONTH PERIOD ENDED 28 FEBRUARY 2005

	Notes	2005 (13 months) £'000	2004 (12 months) £'000
Cash outflow from operating activities	15	**(92)**	(936)
Financial investment			
Purchase of venture capital investments	8(b)	**(864)**	(1,935)
Purchase of listed equities and fixed interest securities	8(b)	**(2,962)**	(3,993)
Sale/redemption of venture capital investments	8(b)	**799**	3,257
Recoveries made in respect of investments previously written-off	8(c)	**51**	–
Sale/redemption of listed equities and fixed interest securities	8(b)	**3,240**	4,679
Total financial investment		**264**	2,008
Financing			
Buy-back of shares	11	**(370)**	(300)
(Decrease)/increase in cash for the period		**(198)**	772

Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash for the period	**(198)**	772
Net funds at the start of the period	**1,716**	944
Net funds at the end of the period	**1,518**	1,716

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, 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.

INVESTMENTS

Unquoted investments are stated at directors' valuations. Such investments are valued in accordance with the British Venture Capital Association ("BVCA") guidelines, which state that investments should be reported at fair value at the reporting date except in situations where fair value cannot be reliably measured. Primary indicators of fair value are derived from earnings multiples, prices of recent investment or from net assets. Where fair value cannot be reliably measured, which is generally the case for early stage technology and life sciences businesses, the policy is to carry them at cost except where there is evidence that an investment has been impaired. Examples of events or changes that could indicate impairment include:

- the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;
- a significant adverse change either in the investee company's business or in the technological, market, economic, legal or regulatory environment in which the business operates; or
- market conditions have deteriorated, which may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors.

Listed investments 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% is to be applied. If the lock-up is for a longer period than six months then a discount of 10% or more will be applied. 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 an accounting period, 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 already held on the Revaluation Reserve is transferred to the Profit and Loss account as a movement on reserves. Where the overall result on an investment is a realised loss, a transfer is then made from the Special Reserve, created on 3 November 2000 following the reduction of the Share Premium account, to the Profit and Loss account, the amount of this transfer being equal to the realised loss.

INCOME

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Income receivable on unquoted equity and non-equity shares and loan notes is 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 quoted 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. Any costs associated with the issue of shares are charged to the Share Premium account. Any costs associated with the buy-back of shares are charged to the Special Reserve.

TAXATION

Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the year. The Company has not provided for deferred tax on any capital gains/(losses) arising on the revaluation or disposal of investments as these items are not subject to tax whilst the Company maintains its venture capital status. The Company intends to continue to meet the conditions required for it to continue its approved venture capital trust status for the foreseeable future.

2 INCOME

	2005 (13 months) £'000	2004 (12 months) £'000
Dividend income		
Unlisted companies	**37**	37
Listed companies	**92**	89
Interest receivable		
Fixed interest securities	**125**	136
Loans to unquoted companies	**154**	112
Bank deposits	**39**	31
Other income	**10**	51
	457	456

3 INVESTMENT MANAGEMENT FEE

	2005 (13 months) £'000	2004 (12 months) £'000
Investment management fee	**331**	387
Irrecoverable VAT	**37**	50
	368	437

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. The agreement is terminable by written notice of not less than 12 months.

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% 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% (pro-rated to reflect the current 13 month period) of the closing net asset value. The management fee for the period amounted to £331,000 (2004: £387,000) net of the amount recoverable from QCML in respect of the cap, details of which are provided in note 9.

QCML also provides administrative and secretarial services to the Company for which it is entitled to a fee of £43,000 per annum. This is based on an amount which is adjusted in line with the RPI. An amount of £46,000 is shown in other expenses (note 4), reflecting the 13 month accounting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 OTHER EXPENSES

	2005 (13 months) £'000	2004 (12 months) £'000
Administrative and secretarial services	**46**	42
Directors' remuneration (note 5)	**42**	39
Auditor's remuneration		
Audit services	**18**	20
Non-audit services	**8**	9
Legal and professional expenses	**29**	19
Insurance	**17**	11
UKLA, LSE and registrar's fees	**19**	19
Irrecoverable VAT	**82**	76
Other	**24**	52
	285	287

5 DIRECTORS' REMUNERATION

	2005 (13 months)	2004 (12 months)
Fees paid to directors	**13**	12
Amounts paid to third parties, excluding VAT, in consideration of the services of directors	**29**	27
	42	39

The total fees paid or payable in respect of individual directors for the period is detailed in the directors' remuneration report set out on page 30.

6 TAX ON ORDINARY ACTIVITIES

	2005 (13 months) £'000	2004 (12 months) £'000
Corporation tax payable	**-**	-

Reconciliation of loss on ordinary activities to corporation tax payable	2005 (13 months) £'000	2004 (12 months) £'000
Loss on ordinary activities before tax	**(1,052)**	(1,387)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	**(316)**	(416)
Effects of:		
Non-taxable items	**131**	214
Unutilised expenses	**185**	202
Corporation tax payable	**-**	-

7 LOSS PER SHARE

The loss per share of 3.1p (2004: 4.0p) is based on the loss on ordinary activities after tax of £1,052,000 (2004: £1,387,000) and on the weighted average number of ordinary shares in issue during the period of 33,699,680 (2004: 34,471,086). There is no dilution effect in respect of the period ended 28 February 2005 (year ended 31 January 2004: nil).

The total recognised loss per share of 6.0p (2004: 8.5p) is based on the total recognised losses for the period of £2,037,000 (2004: £2,937,000) and on the weighted average number of ordinary shares in issue during the period of 33,699,680 (2004: 34,471,086).

8 INVESTMENTS

8(a) Summary of investments

	2005 £'000	2004 £'000
Venture capital investments	**7,636**	8,991
Bonds and listed equity investments	**5,041**	5,058
	12,677	14,049
Bonds and listed equity investments comprise:		
Listed fixed interest securities	**2,693**	3,020
Listed FTSE 350 equity shares	**2,348**	2,038
	5,041	5,058

8(b) Movements in investments

	Venture capital investments £'000	Bonds & listed equity investments £'000	Total £'000
Cost at 1 February 2004	15,233	5,210	20,443
Unrealised net loss at 1 February 2004	(6,242)	(152)	(6,394)
Valuation at 1 February 2004	8,991	5,058	14,049
Movements in the period:			
Purchases at cost	864	2,962	3,826
Disposals – proceeds	(799)	(3,240)	(4,039)
– realised net (losses)/gains on disposal	(61)	47	(14)
Amortisation of fixed interest securities	–	(71)	(71)
Write-off of investments	(839)	–	(839)
Unrealised (loss)/profit on revaluation of investments	(520)	285	(235)
Valuation at 28 February 2005	**7,636**	**5,041**	**12,677**
Cost at 28 February 2005	9,222	4,929	14,151
Unrealised net (loss)/profit at 28 February 2005	(1,586)	112	(1,474)
	7,636	**5,041**	**12,677**

8(c) Loss on realisation of investments

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

	2005 £'000	2004 £'000
Net (loss)/gain on disposal	**(14)**	176
Write-off of investments	**(839)**	(1,526)
Write-back of investments previously written-off	**–**	181
Write-down of debtors (note 9)	**(91)**	–
Recoveries made in respect of investments previously written-off	**51**	–
	(893)	(1,169)

The realised net gain on disposal represents the difference between proceeds received and the carrying values of those investments sold during the period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 DEBTORS

	2005 £'000	2004 £'000
Other debtors	**410**	241
Prepayments and accrued income	**245**	243
Debtors: amounts falling due in over one year	**138**	1,237
	793	1,721

Other debtors include an amount due from Quester Capital Management Limited, being an advance payment of the management fee of £100,000 (2004: £100,000). Prepayments and accrued income include an amount totalling £144,000 (2004: £165,000) in respect of the cap on the management fee which is recoverable in quarterly installments pursuant to the terms of the investment management agreement referred to in note 3, comprising £116,000 in respect of the period ended 28 February 2005 and £28,000 in respect of the year ended 31 January 2004.

Other debtors and debtors falling due in over one year include loan notes and an earnout entitlement received in connection with the sale of the investment in CDC Solutions Limited in December 2003. The loan notes receivable amount to £415,000 (2004: £415,000), with £277,000 falling due within one year (2004: £138,000) and the balance of £138,000 falling due in over one year (2004: £277,000). The earnout entitlement has been valued at £nil (2004: £841,000). This downwards revaluation has resulted in a £91,000 charge being reported on the face of the Profit and Loss account (note 8(c)) and a £750,000 charge against the Revaluation Reserve to reverse a previously recorded unrealised gain of the same amount arising from the investment in CDC Solutions Limited.

10 CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	2005 £'000	2004 £'000
Trade creditors	**30**	115
Accruals	**291**	283
Other creditors	**16**	30
	337	428

11 CALLED-UP EQUITY SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised:		
44,000,000 (2004: 44,000,000) ordinary shares of 5p	**2,200**	2,200
Allotted, issued and fully paid:		
33,227,610 (2004: 34,072,144) ordinary shares of 5p	**1,661**	1,704

The company bought back for cancellation 844,534 ordinary shares with a nominal value of £42,227, representing 2.5% of the issued share capital, at a cost of £370,000.

Under the terms of a Subscription Share Option Agreement dated 22 February 1996, as amended by Supplemental Deeds dated 16 January 1997 and 30 April 2004, APG Holmes, JA Spooner and their immediate families, including family trusts, and an employee benefit trust established for the benefit of certain employees of the Manager (together "the Option Holders") have a contingent entitlement to subscribe for new ordinary shares at par provided the net asset value per share of the Company plus the aggregate gross dividends paid on each share is at least 156p on the Exercise Date (as defined in the Agreement) in 2005, increasing by 4p per year up to 164p on the Exercise Date in 2007 (aggregate gross dividends paid on each share up to 28 February 2005 amount to 41.5p).The number of new ordinary shares entitled to be subscribed for pursuant to these arrangements is calculated according to a formula contained in the Agreement and is dependent on the performance of the Company such that the overall benefit to the Option Holders (inclusive of the 1,201,629 shares allotted pursuant to these arrangements on 5 June 2001) may not, at the maximum, exceed 10% of the issued share capital. The dilution effect to original shareholders of the issue of shares on 5 June 2001 was 3.7%. No share options were exercisable in respect of either the period ended 28 February 2005 or in respect of the year ended 31 January 2004.

12 RESERVES

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 February 2004	2,787	15,129	(5,644)	3,082
Reclassification	623	(623)	–	–
Expenses of share buy-ins	–	(327)	–	–
Realisation of prior years' net unrealised losses on investments	–	–	5,155	(5,155)
Transfer from special reserve to profit and loss account	–	(6,167)	–	6,167
Unrealised loss on revaluation of investments	–	–	(235)	–
Unrealised loss on write-down of debtors	–	–	(750)	–
Retained loss for the period	–	–	–	(1,052)
At 28 February 2005	**3,410**	**8,012**	**(1,474)**	**3,042**

The Special Reserve is a distributable reserve that was created following the cancellation of the share premium account in November 2000. This reserve allows the Company, amongst other things, to fund the buy-back of its ordinary shares as and when it is considered by the Board to be in the best interests of shareholders.

A transfer of £6,167,000 has been made from the special reserve to the profit and loss account, representing the total realised losses on investments incurred in the period ended 28 February 2005.

The reclassification amends the presentation of the actual amount transferred to the special reserve on the cancellation of the share premium account on 3 November 2000.

13 NET ASSET VALUE PER SHARE

The calculation of net asset value per share as at 28 February 2005 of 44.1p (2004: 50.1p) is based on net assets of £14,651,000 (2004: £17,058,000) divided by the 33,227,610 ordinary shares in issue at that date (2004: 34,072,144). There is no dilution effect in respect of either the period ended 28 February 2005 or the year ended 31 January 2004.

14 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000
At 1 February 2004	**17,058**	20,295
Cost of share buy-backs	**(370)**	(300)
Total gains and losses recognised in the period	**(2,037)**	(2,937)
At 28 February 2005	**14,651**	17,058

15 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005 (13 months) £'000	2004 (12 months) £'000
Loss on ordinary activities before taxation	**(1,052)**	(1,387)
Decrease/(increase) in debtors	**59**	(788)
(Decrease)/increase in creditors	**(91)**	66
Amortisation of fixed interest securities	**71**	90
Net purchase of bought interest	**28**	(147)
Repayment of income tax suffered at source	**–**	61
Loss on realisation of investments	**893**	1,169
Cash outflow from operating activities	**(92)**	(936)

16 COMMITMENTS AND GUARANTEES

As at 28 February 2005 there were commitments totalling £50,000 (2004: £50,000) in respect of follow-on investments in existing portfolio companies and guarantees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 FINANCIAL INSTRUMENTS

Management of risk

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing approximately 85% of its funds in a broad spread of unquoted or AIM traded UK companies meeting the relevant criteria for venture capital trusts and approximately 15% in fixed interest securities or equities and convertible securities quoted on a recognized stock exchange, this allocation to be held as a reserve and available for second-round financing or investment in additional unquoted or AIM traded companies. The holding of these financial instruments to meet this objective results in certain risks.

The Company's financial instruments during the period comprised:

- 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; and
- An overdraft facility of £1.5 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 was secured by a charge on the Company's investments held in the portfolio managed by UBS Laing & Cruickshank 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 and interest rate 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. Future short-term flexibility is achieved through the Company's cash resources, proceeds from the disposal of venture capital investments and the bond and listed equity portfolios. As at the period end, the Company had no borrowings.

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

During the period, financing flexibility was obtained through a £1.5million overdraft facility provided by Barclays Bank PLC. This was utilised for seven days during the period ended 28 February 2005. Interest charges arising from this facility were at floating rates of interest and were charged at 1.25% 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 (2004: £nil).

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

Interest rate risk profile of financial assets

The following analysis sets out the interest rate risk of the Company's financial assets.

	2005 £'000	2004 £'000
Floating rate (calculated by reference to LIBOR)	**254**	774
Fixed rate	**3,831**	4,708
Non-interest bearing	**10,248**	11,520
	14,333	17,002

17 FINANCIAL INSTRUMENTS – CONTINUED

Fixed rate financial asset weighted averages

	2005	2004
Fixed rate financial assets weighted average interest rate	**9.5%**	7.5%
Weighted average time for which rate is fixed (years)	**1.3**	1.1

Fair values of financial assets

All of the Company's financial assets are held at fair value as at 28 February 2005.

	2005 Book value and fair value £'000	2004 Book value and fair value £'000
Primary financial instruments:		
Quoted investments	**6,380**	5,990
Unquoted investments	**6,297**	8,059
Debtors: amounts falling due in over one year	**138**	1,237
Cash at bank and in hand	**1,518**	1,716

The fair values of the unquoted investments have been determined according to the methods detailed in the Company's accounting policies (see note 1).

18 RELATED PARTY DISCLOSURES

Some 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, unless otherwise stated.

	2005 No. of directors	2005 £'000	2004 No. of directors	2004 £'000
Linguaphone plc	**1**	**20**	–	–
Surfcontrol plc (disposal)	1	**33**	2	114
Anadigm Limited	**2**	**7**	2	7
CDC Solutions Limited (disposal)†	**3**	**8**	3	39
Elateral Holdings Limited (disposal)*	–	–	4	–
Opsys Limited*	–	–	1	1
Opsys Limited (disposal)*	–	–	1	1

† Receipt of deferred proceeds following the original disposal in December 2003.

* The holdings of certain directors in Elateral Holdings Limited, deriving from the early financing rounds of that company, had been diluted to such an extent by later financing rounds that they had effectively become worthless. The holdings were sold at nominal amounts in order to crystallise a loss for tax purposes. The transactions by one director in the shares of Opsys Limited were undertaken for similar reasons.

Quester Capital Management Limited may, from time to time, be eligible to receive transaction fees and/or directors' fees from investee companies. During the period ended 28 February 2005, fees of £28,000 attributable to the investments of the Company were received pursuant to these arrangements (2004: £52,000).

CORPORATE GOVERNANCE

The Board considers that the Company has complied throughout the period with the provisions of section 1 of the Combined Code on Corporate Governance and the related guidance and good practice suggestions published by the UK Listing Authority in July 2003 and incorporated into the Listing Rules (Combined Code(Amendment)) Instrument 2004, save that this year's annual general meeting has been called on less than the recommended 20 business days notice.

THE BOARD

Following the resignations of APG Holmes and JA Spooner on 31 January 2005, the Board consists of three non-executive directors, all of whom are independent of the Company's investment manager.

The Board has a formal schedule of matters reserved to it and meets at least four times each year and on other occasions as required. The Board as a whole is responsible for the appointment of its own members and professional advisers (neither a nominations committee nor a remunerations committee has been appointed as the directors consider the Board to be small). Other matters specifically reserved to the Board include banking arrangements, proposals for changes to the Articles and related party transactions. In addition, the Board carefully reviews the allocation of investments by the Manager between the Company and its other managed funds, in accordance with established guidelines. The Board receives detailed management accounting information on a monthly basis. Any additional information is supplied on request. Due to the small size of the Board and the lack of complex business, none of the directors has been nominated as a senior independent director.

The attendance of individual directors at the formal quarterly Board and bi-annual Audit Committee meetings held during the period was as follows:

	Scheduled Board meetings	Audit Committee meetings
BTR Scruby (Chairman)	3/4	2/2
SM Bakewell	4/4	2/2
APG Holmes (resigned 31 January 2005)	4/4	n/a
TP Sooke	4/4	2/2
JA Spooner (resigned 31 January 2005)	4/4	n/a

In addition to the meetings referred to above, a number of further board, committee and individual meetings were held during the period to deal with matters arising in the ordinary course of the Company's business.

A formal process for evaluating the performance of the Board has been introduced. Under this arrangement, the Board, led by the Chairman, has conducted a performance evaluation to determine whether it, its committees and individual directors are functioning effectively. A list of questions, based on the January 2003 Suggestions for Good Practice contained in the Higgs report, has been used to provide a framework for this evaluation process. Particular attention is paid to those directors who are due for reappointment. The results of the overall evaluation process are communicated to the Board and followed up with appropriate action, if necessary. The Chairman's own performance evaluation is performed by the other directors. A performance evaluation will be conducted annnually.

The Articles of Association require that all directors be subject to re-election procedures by rotation at the Annual General Meeting. All directors, in accordance with the code, will submit themselves for re-election at least once every three years. This year therefore, Tom Sooke who is chairman of the Audit Committee offers himself for re-election at the AGM. The Chairman has conducted a performance evaluation for Tom Sooke, taking into account the views of all directors. He considers that his performance continues to be effective and valuable and that he continues to demonstrate commitment to the role. He therefore believes that Tom Sooke should be re-elected to the Board.

All directors have access to the advice and services of the Company Secretary and are able to take independent professional advice in furtherance of their duties, if necessary. Information regarding the terms of appointment of the non-executive directors is available on request.

THE AUDIT COMMITTEE

The Audit Committee consists of the three independent non-executive directors. Written terms of reference have been constituted for the Audit Committee and are available to shareholders on request. The Audit Committee meets at least twice a year to review the Company's financial controls, the interim financial statements, annual report and accounts and the terms of appointment of the external auditor together with its remuneration and independence. Information regarding the terms of appointment of the non-executive directors is available on request. The Committee undertakes a periodic review of the terms of the management agreement with Quester Capital Management Limited ("QCML").

INTERNAL CONTROL

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. It has adopted a risk-based approach to identifying the key internal controls, the performance of which has subsequently been monitored throughout the period and up to the date of the approval of this report via the production of quarterly exception reports, which are presented to the Board. These reports are prepared by QCML. The key risks and internal controls are re-appraised annually by the Company's directors. This process accords with the Internal Control Guidance for Directors on the Combined Code first published in September 1999 ('the Turnbull guidance'). It is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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.

Responsibility for accounting, secretarial services and custody of documents of title relating to investments has been contractually delegated to QCML under the terms of the management agreement. QCML, which is authorised and regulated by the Financial Services Authority, has established its own system of internal controls in relation to these matters, on which it has reported to the Board.

RELATIONS WITH SHAREHOLDERS

The Company does not have any major shareholders.

This year's AGM will be held on 13 June 2005 when shareholders will have the opportunity to meet the Board. Accompanying this document is a circular to shareholders containing a notice convening the AGM. 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 that a shareholder may have. In addition to the above, the Board is always pleased to respond to any queries made by shareholders.

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.

DIRECTORS' REMUNERATION REPORT

This report is prepared in accordance with Schedule 7A of the Companies Act 1985. The Company's auditor is required to report on certain information contained within this report (shown in the box below). The auditor's opinion is included within the auditor's report set out on page 31.

The Board as a whole considers directors' remuneration and a remuneration committee has not been established. The Board has access to independent advice where it considers it appropriate. The Board's policy is that the remuneration of non-executive directors should reflect time spent and the responsibilities borne by the directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The Company's articles of association limit fees payable to the directors to £80,000 in aggregate. Directors' fees payable during the period totalled £42,000, as set out below and in note 5.

APG Holmes, JA Spooner and their immediate families, including family trusts, are holders of share options as part of a performance incentive plan. Additional details are provided in note 11. The share option arrangement is viewed as an appropriate incentive plan for those former directors, who are also directors of QCML, as it links their benefits to those of the shareholders of the Company. Except for this, no director's remuneration, or former director's remuneration is performance related and directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits. It is considered appropriate that no other aspect of directors' remuneration should be performance related in light of the directors' non-executive status. It is the intention of the Board that the above remuneration policy will continue to apply in the forthcoming financial year and in subsequent years.

The directors who served during the period received emoluments as detailed below.

	2005 (13 months) £'000	2004 (12 months) £'000
BTR Scruby (Chairman)	**16**	15
SM Bakewell	**13**	12
APG Holmes (resigned 31 January 2005)	**-**	-
TP Sooke	**13**	12
JA Spooner (resigned 31 January 2005)	**-**	-

This level of emoluments has remained unchanged since October 1999. The remuneration levels presented above reflect the 13 month accounting period. None of the directors received any other remuneration or benefit during the period except as disclosed in these accounts. APG Holmes and JA Spooner have waived their entitlement to directors' fees for all accounting periods ended on, or prior to, 28 February 2005.

There is no notice period stipulated in the appointment letters of the Company with any of the directors. No compensation is payable to directors on leaving office.

The graph on page 1 charts the total return (defined as the net asset value per share of the Company plus cumulative dividends paid) to shareholders since the date of launch of the Company compared to a range of other indices (since there is no clearly appropriate benchmark against which the performance of the Company should be measured, a range of other indices are shown including the FTSE Small Cap Index, the Hoare Govett Smaller Companies Index and the FTSE AIM Index which are considered to be the nearest available comparables).

The directors' remuneration report forms part of the Annual Report and Accounts of the Company. These were approved by the Board of Directors on 12 May 2005 and signed on its behalf by TP Sooke.

An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements on pages 16 to 27. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described on page 29, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 28 and 29 reflects the company's compliance with the nine provisions of the 2003 FRC 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 the unaudited part of the directors' remuneration report, 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.

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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 2005 and of the loss of the Company for the period then ended; and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
12 May 2005

SHAREHOLDER INFORMATION

DIVIDENDS

No dividend is proposed in respect of the 13 month period ended 28 February 2005.

ANNUAL GENERAL MEETING **2.30 p.m. on 13 June 2005**

The notice of Annual General Meeting is contained in the circular to shareholders which accompanies this report. The attention of shareholders is directed to the circular which contains details for the completion and submission of proxy forms.

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 are available. Half year net asset value announcements and subsequent monthly net asset value announcements will generally not be made until the internal valuation process for the unquoted investments has been completed for the half year reporting. 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. Shareholders who have not already done so may elect to join the scheme and should do so by notifying the Company's registrars, Capita Registrars, in writing. Copies of the scheme's terms and conditions may be obtained from the Company 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, which the Board elects to be eligible under the scheme. In order to cancel this enduring declaration, a written instruction must be sent to Company's registrars, Capita Registrars.

INVESTOR RELATIONS

Shareholders may now view details of their shareholdings, via an online service available under the "Investor Relations" section of the Quester website, www.quester.co.uk.

The Board is always pleased to respond to any queries made by shareholders.

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: 020 7222 5472 Fax: 020 7222 5250 Email: www.quester.co.uk Authorised and Regulated by the
Financial Services	
	Authority
SECRETARY	MG Williams
STOCKBROKER	Noble & Company Limited 76 George Street Edinburgh EH2 3BU
SOLICITORS	Travers Smith 10 Snow Hill London EC1A 2AL
AUDITOR	KPMG Audit Plc Chartered Accountants and Registered
Auditor	
VCT TAX ADVISER	KPMG LLP both of: 8 Salisbury Square London EC4Y 8BB
QUOTED AND	UBS Laing & Cruickshank Investment
Limited	
FIXED INTEREST **INVESTMENT ADVISER**	Broadwalk House 5 Appold Street London EC2A 2DA
REGISTRARS	Capita Registrars The Registry 34 Beckenham Road Beckenham, Kent BR3 4TU Tel: 0870 162 3100 Fax: 020 8658 3430
BANKERS	Barclays Bank plc Financial Markets Team PO Box 544, 1st Floor 54 Lombard Street London EC3V 9EX