Quester VCT PLC

Annual Report 2006

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

The Company's objectives are to provide shareholders with an attractive income and capital return by:

- maximising the value of existing venture capital investments on exit and to focus on achieving as many exits as practicable during the next three years; and
- implementing a process of reinvestment of available liquid assets in venture capital investments, so as to maintain the status of Quester VCT as an approved venture capital trust.

The Company invests principally in a diversified venture capital portfolio, including unquoted companies with good growth prospects and companies whose shares are traded on AIM, and also in a portfolio of listed equities and fixed interest securities.

The portfolio focuses mainly on early stage technology-related companies in the ICT and healthcare sectors, often with international potential.

Dividends paid by Quester VCT, 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.

Investment in venture capital trusts should be viewed as a high risk, long term investment. Eligible shareholders are reminded that a sale of their shareholding in Quester VCT may give rise to a loss of any capital gains deferral granted at the time of their original subscription.

Financial highlights
As at 28 February 2006

Per ordinary share (pence)	28 February 2006	28 February 2005	31 January 2004
Capital values			
Net asset value	**44.5**	44.1	50.1
Share price	**37.0**	44.0	45.0
Return and dividends			
Interim dividend	**1.25**	–	–
Cumulative dividend	**42.8**	41.5	41.5
Total return*	**87.3**	85.6	91.6

*Net asset value plus cumulative dividend

A final dividend of 2.5p per share has been proposed and is payable on 3 July 2006 increasing cumulative dividends for an original investor in Quester VCT to 45.3p. Under new accounting standards, this dividend is not provided for in these accounts.

The returns summarised above are applicable only to original shareholders of Quester VCT plc. They do not represent the historic returns to subsequent subscribers, including those who have assumed a shareholding in the Company following the merger with Quester VCT 2 plc and Quester VCT 3 plc.

The above table excludes any tax benefits (20% income tax relief and capital gains deferral) received on subscription for shares in the Company. Inclusive of initial income tax relief, the total return to an original investor would be equivalent to 107.3p per share as at 28 February 2006.

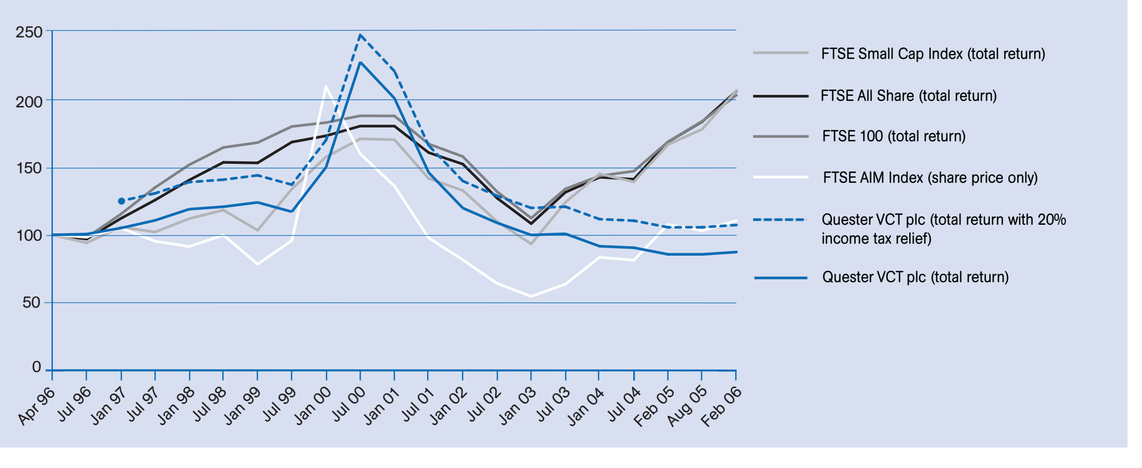
Composition of the fund by value

	Inclusive of final dividend %	Exclusive of final dividend %
Quoted and unquoted venture capital investments	47.2	44.6
Listed fixed interest investments**	4.6	4.3
Listed equity investments**	21.9	20.7
Cash and other net current assets**	26.3	30.4
	100.0	**100.0**

**Available for potential future venture capital investment

Comparative Performance

The comparative performance of Quester VCT plc is shown on the graph below, in comparison with a range of other indices (figures have been rebased to 100 at April 1996 when the Company was launched).



Chairman's statement

Overview

This has been an extremely active period.

Your Company was merged with Quester VCT 2 plc and Quester VCT 3 plc in June 2005. The principal benefits from the merger have been an increase in the range and diversity of the portfolio, an improved spread of risk and opportunity, a reduction in running costs and a flow of dividends as sales are made from a wider portfolio.

Following the merger, your Board has carried out an energetic and thorough review of the way in which your Company's strategy will be implemented, within the guidelines laid down last June. The new Board was augmented by Christopher Wright, who was previously totally unconnected with Quester Capital Management Limited ("the Manager"). Within the Manager, Simon Acland has become managing director.

The two areas reviewed by the Board were the process and timetable for the realisation of the venture capital portfolio, as it existed at the time of the merger, and the process of reinvestment of the existing liquid resources and the proceeds from sale. This led naturally to an assessment of dividends and dividend policy.

Realisations

The merger documents indicated that the portfolio was mature and largely ready for realisation. It is expected that it will be substantially realised over the next three years, depending on favourable conditions continuing for companies in our sectors.

The pace of realisations has been strong with over £10million realised in the 8 months since the merger, representing about one quarter of the portfolio by value. Footfall Limited was sold for a profit of £2.7million; 90% over its merger value. However, there were also disappointments, particularly in the failure of Anadigm Limited to meet its targets in the second half of last year, resulting in a loss of £0.7million. Overall net profits of £3.1million have been realised from the Venture Capital portfolio in this period, which represents an encouraging first year for the realisation process.

Building a new portfolio

Your Board also re-examined your Manager's position in the market place, and tested its ability to reinvest the portfolio in a broad range of companies within its areas of expertise and to build a portfolio with attractive investment characteristics. While these sectors were disappointing from 2001 to 2005, Quester's performance in the late 80s to mid 90s, before VCTs existed, and for VCTs from 1995 to 2001, gives your Board comfort that good returns can be made. The Manager's skills are recognised by professional investors in its institutional fund. The Manager will be able to take a disciplined approach, avoiding over valued or hyped situations, and intends to create a spread of risk across sectors, balancing early versus later stages of maturity. The Board expects that the current period may prove to be an advantageous time in the cycle for investment in these sectors.

Quester is one of a limited number of early stage investors with a long and deep understanding of the information and technology sector, including biotechnology and related pharmaceutical businesses. Your Board emphasises that this expertise and the new portfolio which is being built, will continue in the main to be focused in these areas and that it is possible to earn good returns from such a portfolio. The individual investments are high risk, but the size of your Company will enable a reasonable spread of investments to be made.

These high return opportunities may lead to disappointments and losses. It is also clear that good overall returns will take a number of years to come through. Since losses tend to be suffered before the high returns from successful companies, there are likely to be a few years of dull performance and it is only in the longer term that shareholders can expect to be able to benefit from the overall performance of the new portfolio.

An amount of £6million has been invested in the year. Of this, £4.7million was invested in ten new investments with the balance of £1.3million being provided as further funding to five existing companies.

Net assets

The change in net assets for the whole year, including the period prior to the merger, is summarised in the table below.

	£'000	Pence per share
Net asset value at 28 February 2005	14,651	44.1
Pre-merger Formula Asset Value ("FAV") adjustment, including merger costs	(221)	(0.7)
Merger FAV	**14,430**	**43.4**
Assets acquired on merger, net of costs	38,599	(0.3)
Net realised gains on venture capital investments	3,085	3.4
Net unrealised loss on venture capital investments	(1,558)	(1.7)
Net gains on listed equities and bonds	1,529	1.7
Income less operating expenses	(194)	(0.3)
Dividends paid, less amounts reinvested	(1,479)	(1.8)
Share buy-backs	(1,077)	0.1
Net asset value at 28 February 2006	**53,335**	**44.5**

Board changes

Simon Bakewell, who had served on the Board since the Company's inception in 1996, retired following the merger. I joined the Board (having been Chairman of Quester VCT 2) and Christopher Wright, who has extensive experience in early stage investing, joined the Board in July 2005. Tom Scruby, who had served as chairman of the Board from 1996 up to the merger, is to retire at the forthcoming AGM. Tom has continued to provide wise counsel over this period, based on his understanding of early stage investing. On behalf of the Board, I would like to express my thanks to both Simon and Tom for their valuable contribution.

Dividend policy and dividends

Following the merger, your Company held a portfolio of listed equities valued at £15.6million, which has subsequently been sold down to £11.0million at the year end. This portfolio is held, together with a small portfolio of bonds, to provide reserves to meet the further investment needs of the venture capital portfolio. The reduction in the listed equity portfolio reflects a reduced need for reserves arising partly from the merger. The Company's liquid resources have been further augmented by the proceeds of realisations and amounted to about half of your Company's net assets at the year end. While a substantial proportion of these funds are likely to be reinvested, there is also ample scope to pay dividends.

HM Revenue & Customs has recently indicated it will toughen up on the rule requiring the investment of a fixed proportion of the portfolio, namely 70%, in venture capital investments. This change will become effective by 6 April 2007. As the Manager intends to continue to apply a measured approach to reinvestment, the Board currently expects to pay out useful dividends over the next few years to satisfy this requirement. The rate will fluctuate depending on the continuing pace of realisations, the rate of reinvestment and the need to maintain reserves to back the new portfolio. It currently expects to pay interim and final dividends. In accordance with VCT rules, these dividends would be tax free.

You will be aware that, post merger, the Manager's incentive is structured to reward payouts over the period to February 2009, the minimum target being aggregate dividends totalling 20% of post merger FAV over that period, with a higher hurdle of 40% for an increased payment.

An interim dividend of 1.25p per share was paid last November, at a cost of £1.5million. In the light of all the factors above, your Board has decided to recommend payment of a final dividend of 2.5p per share, costing approximately £3million.

Jock Birney
Chairman
17 May 2006

Investment manager's report

Introduction

Following the merger in June 2005, we have been focusing our efforts in three areas: the realisation of a number of our earlier investments, supporting the companies within the portfolio and identifying new investment opportunities. It has been an extremely active period for the venture capital portfolio: several exits have been achieved and we have made good progress with new investments.

The venture capital portfolio has recorded overall positive returns for the year; the unquoted element of the portfolio generated net gains of £2.0million whilst the quoted portion of the portfolio showed a loss of £0.5million.

We believe that the prospects for the technology sector are improving, as evidenced by much increased M&A activity and improved sentiment towards AIM, and this should continue through the current year. We believe that we are therefore in a more favourable climate for early stage venture capital investment than in recent years.

Realisation from the venture capital portfolio

The year to 28 February 2006 has been an extremely active period for the portfolio in terms of sales achieved. We realised ten investments, either wholly or in part, generating cash proceeds of £10.5million and a gain of £2.9million over merger FAV, as detailed below:

Company	Cash proceeds £'000	Merger FAV £'000	Gain/loss over merger FAV £'000
Anadigm Limited	–	729	(729)
Casella Group Limited	1,121	1,121	–
Crown Sports plc	440	435	5
Dycem Limited	408	373	35
Footfall Limited	5,630	2,900	2,730
HTC Healthcare Group plc	120	120	–
International Resources Group plc	925	400	525
Loudeye Corp.	1,491	1,204	287
Sirius Financial Solutions plc	128	122	6
XKO Group plc	271	232	39
	10,534	**7,636**	**2,898**

We reported on the sales of Anadigm, Casella, Loudeye and Crown Sports at the interim stage. The significant sales achieved since the half year are:

- Footfall, the leading provider of customer counting technology and statistics to both the retail and retail property sectors, was sold to Experian, the information solutions company, for over £35million. This was the most significant exit for Quester VCT during the year generating proceeds of £5.6million, a profit of £2.7million and an IRR of 13%.
- The residual holding in International Resources Group, which trades as Odgers Ray & Berndtson, a leading executive search firm, was sold during the period. This investment was made in 1998 and returned a total of £1.7million, including income, on a cost of £0.4million, generating an IRR of 42%.
- The disposal of Dycem, a leading manufacturer of quality non-slip products addressing a number of stabilisation and gripping problems and a pioneer of contamination control flooring solutions has resulted in overall cash proceeds, inclusive of income, of £1.5million on an original cost of £0.7million giving rise to an IRR of 14%.

Venture Capital Investments made during the year

We continue to seek new venture capital investments. The selection process for new investment opportunities is structured so that only those investments with the greatest potential are chosen. It would certainly be possible to accelerate the rate of investment by being less selective: however, we believe that this would compromise quality and ultimately returns to investors.

The following ten new investments were made at a total cost of £4.7million.

Company	Industry Sector	£'000
Cluster Seven Limited	Software	743
Genosis plc	Diagnostics & devices	1,140
Global Silicon Limited	Semiconductors	600
Haemostatix Limited	Biotechnology	53
Lectus Therapeutics Limited	Biotechnology	248
Level Four Software Limited	Software	518
Nanotecture Limited	Industrial products & services	25
PanOpSys Limited	Diagnostics & devices	240
Pelikon Limited	Electronics	708
Perpetuum Limited	Electronics	435
		4,710

A number of these investments are made on a tranched basis, with each tranche subject to milestones being met. This is a deliberate strategy and appropriate reserves are maintained to fund the additional tranches of investment. This retention of reserves is an integral aspect of early stage venture capital investment, as it ensures the ability to continue to back investments, as and when further funding is required.

We reported on the new investments in Global Silicon, Level Four Software, Nanotecture and Pelikon in the interim report. The new investments made subsequent to the half year are covered below:

- Cluster Seven develops and sells enterprise spreadsheet management software. The company's products provide control over spreadsheets being used in mission critical environments. In the current regulatory environment, the control of spreadsheets is paramount and there is a substantial global market for Cluster Seven's products. The company has built an impressive client base, principally in the UK, and the £2.4million first round funding will be invested in product development and expansion in the US. Henry Sallitt, a Quester director, has joined its board.

- Genosis focuses on developing innovative and unique solutions for the diagnosis of reproductive disorders. This is a growing market with an estimated 1 in 6 couples globally experiencing fertility issues. Genosis' first product, Fertell, is a combined male and female home fertility test available exclusively over-the-counter at Boots. Quester VCT's initial investment was a pre-AIM investment. The company subsequently raised £7million on its admission to trading on AIM in December enabling manufacturing capabilities to be scaled up and marketing and sales resources to be enhanced.

- Haemostatix is a drug discovery company concentrating on the development of an alternative to blood platelet transfusion. Its product, HaemoPlax™, is designed to be a safer and more cost effective alternative to existing procedures. In January, Quester led a £3.1million investment in Haemostatix, which will enable the company to finance the development of HaemoPlax through to preliminary clinical trials and also advance its pipeline of follow-on products. Jonathan Gee, a Quester director, has joined its board.

- Lectus Therapeutics specialises in the discovery and development of novel drugs (ion channel modulators) for diseases associated with pain management, urinary incontinence and angina, offering important clinical and economic advantages over existing therapies in this growing market. The company raised £8.2million in the Series A funding in which Quester VCT participated alongside leading French venture capital firm Sofinnova and the top two Japanese pharmaceutical firms, Takeda and Astellas. The new funds will be used to advance existing programmes and provide opportunities for commercial partnerships with pharmaceutical companies.

- PanOpSys is a medical diagnostics company specialising in the development of innovative diagnostic devices to be used to speed up diagnosis and improve healthcare delivery at the point of care. The company is at an exciting stage in the commercialisation of its patented piezofilm technology in a growing market. The company raised £3million in a Series 'A' funding led by

Investment manager's report (continued)

Quester. These funds will be used to develop a range of rapid, sensitive, whole blood immunoassay based products for the measurement of clinically critical markers in non-laboratory settings. Iain Wilcock, a Quester director, has joined its board.

- Perpetuum produces electromechanical vibration energy harvesting micro-generators to power wireless sensor nodes, eliminating the need for hard wiring or batteries. This technology addresses the growing and substantial market for wireless sensor systems, which are used for a wide range of applications. The Quester led £2.2million Series 'A' funding round will enable the company to begin commercialising its technology. Henry Sallitt has joined the board.

The majority of these new investments are shared with Quester's institutional fund, Quester Venture Partnership. Several of these investments have also been seed funded by Quester managed university linked funds, as part of Quester's proactive deal sourcing strategy.

We have also supported the existing portfolio with five further follow-on investments totalling £1.3million:

Company	Industry Sector	£'000
Advanced Valve Technologies Limited	Industrial products & services	261
Anthropics Technology Limited	Communications	25
Avidex Limited	Biotechnology	69
HTC Healthcare Group plc	Consumer services	811
Teraview Limited	Diagnostics & devices	125
		1,291

Developments in the venture capital portfolio

A number of companies have made positive progress since we reported at the half year.

The valuations of the investments in Methuen Publishing Limited and Sibelius Software Limited have been marked-up by £344,000 and £62,000 respectively to reflect the perceived fair value of these investments.

Allergy Therapeutics plc, the AIM quoted company that develops and sells allergy vaccines, has recently released positive news about one of its products, Pollinex, progressing into phase III trials. The market has responded positively to this news resulting in an initial 20% uplift in the share price. The company has raised a further £19million and, encouraged by the progress made and future prospects, we made a further £200,000 investment in April 2006.

Avidex Limited, a biotechnology company focused on the novel development of therapeutics involving T-cell receptors leading to the treatment of cancer, inflammation and autoimmune diseases, has secured further funding via a significant investment from a new trade partner, Syngenta. This further funding will take the company through to the next stage of its development and demonstrates the progress made with its science, although the fair value of the investment has been reduced by £326,000 to reflect the pricing of this third party investment.

Cyclacel Limited has successfully merged with Xcyte Therapies, Inc. to form a larger international biopharmaceutical company, Cyclacel Pharmaceuticals, Inc., a publicly-traded company with a franchise in one of the most exciting fields of biology, a development-stage portfolio of targeted oncology drug candidates affecting the cancer cell cycle and holding approximately $20million in cash. The fair value of the investment in Cyclacel has been reduced by £437,000 to reflect its implied valuation based upon the market valuation of Cyclacel Pharmaceuticals, Inc.

These latter two valuation changes reflect current valuation trends across the biotechnology sector generally, as opposed to specific performance issues with the individual businesses themselves.

The investment in Linguaphone, previously valued at £299,000, has been written off.

Sector spread

The spread of sectors covered by the portfolio at 28 February 2006 is provided in the table below:

Industry sector	Percentage of venture capital portfolio at valuation %	Valuation £'000	Number of Investments
Software	32.0	7,611	11
Diagnostics & devices	12.2	2,901	4
Internet	11.6	2,748	2
Biotechnology	11.4	2,708	6
Consumer services	7.0	1,664	1
Publishing	6.2	1,463	1
Electronics	6.0	1,411	3
Industrial products & services	5.4	1,295	3
Communications	4.3	1,029	2
Semiconductors	3.9	938	2
	100.0	**23,768**	**35**

We will endeavour to keep a spread of investments in the portfolio so as to maintain a balance between early stage, higher risk, investments with potential high returns and later stage, lower risk, investments with correspondingly lower returns. However, given that this is a venture capital portfolio, it should be noted that all investments will remain relatively high risk.

Listed equity and bond portoflios

The listed equity portfolio has performed well over the year generating a total return of 29.3%. The FTSE All Share Index generated a return of 22.3% over the same period. During the year, the opportunity was taken to reduce the weighting of this portfolio in relation to the net assets of the Company and a number of investments were realised. At 28 February 2006, this portfolio was valued at £11million and was showing an unrealised gain of £1.1million.

The Company retains a small bond portfolio effectively valued at par at £2.3million. Over the year, this portfolio has provided a yield of approximately 4.6%.

Costs

A key objective of the merger was a reduction in running costs. Annualised post merger running costs, amounted to 3.0% of closing net assets. This compares favourably with the percentage for the prior year of 3.9%.

Outlook

Through the merger we achieved our objectives of increasing the range and diversity of the venture capital portfolio, an increasing pace of realisations and a reduction in running costs. We have subsequently concentrated on supporting companies within the portfolio, realising earlier investments and making investments in a cross section of exciting new companies. We have made good progress and will continue to concentrate our efforts in these areas in the current year.

The prospects for the technology sector are improving and the climate is more favourable for early stage venture capital investment. We are optimistic that the investments we are now making will deliver attractive returns in the medium to longer term.

Quester
17 May 2006

Ten largest venture capital investments

By valuation

Sift Group Limited	www.sift.com			
Location:	Bristol, UK	Date of initial investment:	November 1999	
Status:	Unquoted	Lead investor:	Quester co-lead	
Founded:	1996	Quester co-investors:	Quester VCT 4	
Employees:	80	Other investors:	Elderstreet Capital Partners, NIF Ventures	
		Quester Director:	–	
Funding round:	Series B	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£2,114,000	Turnover:	£7,003,000	£4,022,000
Valuation basis:	Cost less provision	Profit before tax:	£651,000	£208,000
Cost:	£2,260,000	Retained profit:	£143,000	£208,000
Equity held:	14.4%	Net assets:	£477,000	£477,000

Business description: 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.

Reason for investment: Sift provides the expertise and technology to connect people to information and to each other online, resulting in reduced operating costs and increased business opportunities for their clients. Enterprises and associations increasingly recognise the value of disseminating information via online communities and Sift is well positioned to capitalise on this trend.

Progress since investment: The company has developed from an online business-business media company to become a provider of software and services, enabling others to provide web publishing services. The company continues to grow, with the acquisition of Practice Web in 2005, and has secured further significant contracts in the period.

Outlook: Further growth is expected in 2006 as enterprises look to outsource their online community management requirements.

HTC Healthcare	www.happytimes.co.uk			
Location:	London, UK	Date of initial investment:	September 1999	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1997	Quester co-investors:	Quester VCT 4, Quester VCT 5	
Employees:	170	Other investors:	Electra VCT	
		Quester Director:	Andrew Holmes	
Funding round:	Expansion	Latest published results:	31.03.2005	31.03.2004
Current valuation:	£1,664,000	Turnover:	£2,720,000	£2,755,000
Valuation basis:	Cost less provision	Loss before tax:	(£561,000)	(£230,000)
Cost:	£2,207,000	Retained losses:	(£561,000)	(£230,000)
Equity held:	36.7%	Net assets	£1,443,000	£2,004,000

Business description: HTC Healthcare Group runs Happy Times day nurseries providing high quality childcare in London. The group operates four nurseries in Battersea, Hammersmith, Richmond and Fulham.

Reason for investment: There is a growing market for childcare driven by social and demographic changes. The company's objective is to build a services business in a niche market and capitalise as the market consolidates.

Progress since investment: The company has continued to develop, growing the client base of the existing business and expanding operations with the opening of the Fulham nursery in March 2006.

Outlook: HTC will concentrate on developing the Fulham nursery whilst seeking further opportunities in the market.

Methuen Publishing Limited	www.methuen.co.uk			
Location:	London, UK	Date of initial investment:	July 1998	
Status:	Unquoted	Lead investor:	–	
Founded:	1889	Quester co-investors:	–	
Employees:	10	Other investors:	–	
		Quester Director:	Iain Wilcock	
Funding round:	Series C	Latest published results:	30.06.2004	30.06.2003
Current valuation:	£1,463,000	Turnover:	£2,540,000	£2,184,000
Valuation basis:	Fair value	Loss before tax:	(£9,000)	(£204,000)
Cost:	£1,119,000	Retained losses:	(£2,000)	(£212,000)
Equity held:	43.7%	Net liabilities:	(£388,000)	(£394,000)

Business description:	A specialist publisher focusing on drama and performing arts, history, travel, biography and sport. Methuen has an impressive back catalogue, containing one of the most comprehensive collections of both classic and contemporary work in these fields.
Reason for investment:	Methuen is an established niche publisher with the opportunity to capitalise on its back-catalogue of books and expand publishing activities through organic and acquisition driven growth.
Progress since investment:	Methuen continues to lead the field in drama and theatre publishing with a range of books by a host of the very best writers and the most comprehensive collection of plays by classic and contemporary dramatists. New dramatists have been added to the back list and others continue to be added as opportunities arise. In addition, the company continues to expand its general publishing.
Outlook:	Further growth is expected in the current year.

Sibelius Software Limited	www.sibelius.com			
Location:	London, UK	Date of initial investment:	November 1999	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1993	Quester co-investors:	–	
Employees:	70	Other investors:	–	
		Quester Director:	Simon Acland	
Funding round:	Series A	Latest published results:	30.04.2005	30.04.2004
Current valuation:	£1,463,000	Turnover:	£6,728,000	£6,204,000
Valuation basis:	Fair value	Profit before tax:	£547,000	£502,000
Cost:	£1,400,000	Retained profit:	£256,000	£446,000
Equity held:	12.0%	Net assets:	£1,808,000	£1,531,000

Business description:	Sibelius is the world's best-selling music notation software, revolutionising the way music is composed, transcribed and published. It is used extensively by professional and amateur composers and has become the global industry standard for teaching music composition from beginner to degree level.
Reason for investment:	Sibelius has established its core technology as the standard for downloading sheet music over the internet, in addition to expanding into new geographical territories and growing the product range. Sibelius has an acclaimed product and pioneering technology for which there is significant growth potential.
Progress since investment:	The company has quadrupled in size since Quester made its initial investment and more than 100.000 people in over 100 countries use Sibelius Software's technology. Sibelius has developed 11 music products for the professional, educational and home user and was awarded the Queen's Award for Innovation in 2005.
Outlook:	The company will continue to expand its product range and geographical coverage.

Ten largest venture capital investments (continued)

By valuation

Artisan Software Tools Limited www.artisansw.com

Location:	Cheltenham, UK	Date of initial investment:	March 1998	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1997	Quester co-investors:	–	
Employees:	39	Other investors:	3i, Pi Capital, Pond Ventures	
		Quester Director:	Jeremy Milne	
Funding round:	Series C	Latest published results:	31.12.2004	31.12.2003
Current valuation:	£1,173,000	Turnover:	#	#
Valuation basis:	Cost less provision	(Loss)/ profit before tax	#	#
Cost:	£2,100,000	Retained losses	(£157,000)	(£38,000)
Equity held:	23.4%	Net assets	£859,000	£1,015,000

Business description: A leading supplier of innovative software modelling solutions that accelerate the development of real-time systems. Artisan Studio is a suite of development tools that enables design teams to capture and integrate software and system design into a complete process.

Reason for investment: At the time of investment the market offered significant potential, estimated to be worth $100million and expected to grow at 40% per annum. Artisan, with a strong product set and growing customer base, was expected to be able to capitalise as the software programming techniques used by Artisan's tool set gained greater market uptake.

Progress since investment: The growth of the market has been slower than expected, however the company continues to show progress and is securing significant contracts. Artisan continues to concentrate on product development and Artisan Studio version 6.1 was launched in February.

Outlook: The company continues to build steadily on its customer base.

Vernalis plc www.vernalis.com

Location:	Reading, UK	Date of initial investment:	July 2000	
Status:	Quoted	Lead investor:	–	
Founded:	1986	Quester co-investors:	–	
Employees:	173	Other investors:	3i, Advent Venture Partners, Apax, JP Morgan, NIB, Rendex	
		Quester Director:	–	
Funding round:	n/a	Latest published results:	31.03.2005	31.03.2004
Current valuation:	£1,166,000	Turnover:	£15,195,000	£8,631,000
Valuation basis:	Bid price	Loss before tax:	(£30,967,000)	(£36,864,000)
Cost:	£886,000	Retained losses:	(£29,209,000)	(£34,219,000)
Equity held:	0.5%	Net assets:	£12,875,000	£33,789,000

Business description: Vernalis is an R&D based specialty pharmaceutical company with two marketed products, Apokyn® to treat immobilising "off" episodes in patients with advanced Parkinson's disease and Frova® to treat migraine. The company also has a broad development pipeline focused on neurology and central nervous system disorders.

Reason for investment: RiboTargets, British Biotech and Vernalis merged in 2003, the integrated company includes a high quality, structure-based drug discovery capability focused on novel cancer targets, a marketed product, Frovatriptan, a clinical portfolio and innovative discovery programmes focused on central nervous system disorders and a strong pipeline of products.

Progress since investment: The company raised £42.7million in November 2005; the funds have enabled the development of products from the acquisition of Cita NeuroPharmaceuticals and the company has established a US operation to market Apokyn® and co-promote Frova® alongside its North American licensing partner, Endo Pharmaceuticals. Vernalis has seven products in clinical development and collaborations with a number of leading, global pharmaceutical companies.

Outlook: Vernalis will continue towards the goal of becoming a sustainable, self-funding, speciality bio-pharmaceutical company.

Abbreviated accounts produced; information not publicly available.

Genosis plc	www.genosis.com			
Location:	Woking, UK	Date of initial investment:	October 2005	
Status:	Quoted	Lead investor:	Quester	
Founded:	1998	Quester co-investors:	Quester VCT 4, Quester VCT 5	
Employees:	9	Other investors:	Schroders, International Biotechnology Trust, Sitka	
		Quester Director:	–	
Funding round:	Series C and AIM IPO	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,113,000	Turnover:	£219,000	–
Valuation basis:	Bid price	Loss before tax:	(£2,787,000)	(£1,635,000)
Cost:	£1,140,000	Retained losses:	(£2,787,000)	(£1,569,000)
Equity held:	6.5%	Net assets/(liabilities):	£7,205,000	(£3,093,000)

Business description:	Genosis focuses on developing innovative and unique solutions for the diagnosis of reproductive disorders. Genosis' revolutionary first product offering, Fertell, is an over-the counter set of male and female home fertility tests.
Reason for investment:	This is a significant and growing market with an estimated 1 in 6 couples globally experiencing fertility issues. Fertell is simple to use, extremely accurate and provides couples trying to conceive with the opportunity to monitor their fertility and improve the chances of successful conception.
Progress since investment:	Following Quester's initial pre-AIM investment, Genosis has subsequently raised £7million on its admission to trading on AIM in December. Fertell has approval for use in the US and Europe and exclusive distribution through Boots outlets in the UK commenced in January 2006.
Outlook:	Early indications are that UK sales are slightly behind the company's expectations. However, EU and US pre-launch activities are ahead of plan.

Antenova Limited	www.antenova.com			
Location:	Cambridge, UK	Date of initial investment:	April 2001	
Status:	Unquoted	Lead investor:	Quester co-lead	
Founded:	1999	Quester co-investors:	Quester VCT 4, Quester VCT 5, Quester Venture Partnership	
Employees:	32	Other investors:	NIF, Cambridge Gateway, FNI	
		Quester Director:	Jamie Brooke	
Funding round:	Series C	Latest published results:	31.12.2004	31.12.2003
Current valuation:	£1,004,000	Turnover:	#	#
Valuation basis:	Cost	Profit before tax:	#	#
Cost:	£1,004,000	Retained losses:	(£2,140,000)	(£2,674,000)
Equity held:	5.4%	Net assets:	£6,846,000	£1,440,000

Business description:	A leading developer of advanced antenna technology and innovative radio solutions used in wireless communications. The company exploits technology based on innovative antenna design using ceramic materials.
Reason for investment:	To capitalise on the commercial potential of the company's innovative antenna design, which provides antennas that are smaller, higher in efficiency and offer more robust performance for mobile handsets, PC cards and laptops.
Progress since investment:	The company continues to sign significant contracts, following the completion of a $12million funding round in 2005, and is now installed in products from three of the major handset manufacturers and two major tier-one laptop manufacturers.
Outlook:	The sales pipeline is good and the company is focused on securing some major contracts. Overall, it is well positioned to meet the needs of the global handset and laptop antenna market that is predicted to grow significantly over the next two years.

Abbreviated accounts produced; information not publicly available.

Ten largest venture capital investments (continued)

By valuation

NOMAD SOFTWARE

Nomad Software Limited	www.nomadsoft.com			
Location:	London, UK	Date of initial investment:	March 2000	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1995	Quester co-investors:	Quester VCT 4, Quester Venture Partnership	
Employees:	41	Other investors:	Foresight, Meondale	
		Quester Director:	Henry Sallitt	
Funding round:	Expansion	Latest published results:	31.12.2004	31.12.2003
Current valuation:	£887,000	Turnover:	£4,032,000	£3,138,000
Valuation basis:	Cost less provision	Loss before tax:	(£1,428,000)	(£808,000)
Cost:	£1,818,000	Retained losses:	(£1,303,000)	(£1,014,000)
Equity held:	18.7%	Net (liabilities)/assets:	(£1,299,000)	£2,000

Business description: Nomad is a leader in innovative card payments processing software and services in Europe. Nomad Cortex is a comprehensive card payments solution for the banking industry, processing card-based transactions at every level of an Electronic Funds Transfer network, available in-house or out-sourced through Nomad Processing Services.

Reason for investment: Nomad is well placed to capitalise as retail banks review card based payment systems in order to offer products with greater flexibility, functionality and security, based on next generation technologies such as chipcards and mobile payments.

Progress since investment: On the software side, the company has developed a significant customer base for Cortex, primarily in Central and Eastern Europe and the Middle East, with market leadership in Poland and the Baltic States. Nomad enjoys a high level of repeat business from existing customers, which provides a strong platform for growing into neighbouring countries and also for penetrating Western European countries.

In the last eighteen months Nomad has developed an outsourced debit card and prepaid card processing business. This business is growing strongly and Quester funds have just invested a further £1million as part of a £1.25million round to accelerate the growth of this opportunity.

Outlook: The company is focused on exploiting its market position as a processor of debit and prepaid card transactions.

TeraView
Realising potential

Teraview Limited	www.teraview.co.uk			
Location:	Cambridge, UK	Date of initial investment:	April 2001	
Status:	Unquoted	Lead investor:	Amadeus	
Founded:	2001	Quester co-investors:	Quester VCT 4	
Employees:	37	Other investors:	Coherent, CRIL, Toshiba	
		Quester Director:	–	
Funding round:	Series B	Latest published results:	30.04.2005	30.04.2004
Current valuation:	£858,000	Turnover:	£2,293,000	£947,000
Valuation basis:	Pricing of last round	Loss before tax	(£2,173,000)	(£2,013,000)
Cost:	£858,000	Retained losses	(£2,059,000)	(£1,634,000)
Equity held:	4.9%	Net assets	£1,368,000	£1,427,000

Business description: Teraview is unique in its sole dedication to the commercialisation of Terahertz radiation imaging and diagnostics technology by developing applications for its use.

Reason for investment: Terahertz radiation can be applied in a number of market sectors including the areas of drug discovery and formulation, security and contraband detection and medical imaging. New application areas are also under consideration. Teraview aims to capitalise on the commercialisation of this last unexplored region of the radio wave and light spectrum.

Progress since investment: The company has focused its target market on pharmaceuticals. In addition, a technical advisory board with specific pharma expertise has been appointed.

Outlook: A large pharma contract is in negotiation and further pharma contracts are in the pipeline.

Fund summary as at 28 February 2006

	Industry Sector	Cost £'000	Valuation £'000	% equity held	% of fund by value
Quoted venture capital investments					
Allergy Therapeutics plc	Biotechnology	572	603	1.1%	1.1%
Genosis plc	Diagnostics & devices	1,140	1,113	6.5%	2.1%
Imagesound plc	Software	1,848	541	12.4%	1.0%
Sopheon plc	Software	178	43	0.2%	0.1%
Surfcontrol plc	Software	493	669	0.4%	1.3%
Vernalis plc	Biotechnology	886	1,166	0.5%	2.2%
XKO Group plc	Software	611	704	1.4%	1.3%
Total quoted venture capital investments		5,728	4,839		9.1%
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	2,752	610	12.8%	1.1%
Antenova Limited	Semiconductors	1,004	1,004	5.4%	1.9%
Anthropics Technology Limited	Communications	95	25	7.0%	–
Arithmatica Limited	Semiconductors	338	338	12.5%	0.6%
Artisan Software Tools Limited	Software	2,100	1,173	23.4%	2.2%
Avidex Limited	Biotechnology	602	275	1.4%	0.5%
Casella Group Limited	Industrial products & services	1,389	598	15.8%	1.1%
Cluster Seven Limited	Software	743	743	9.3%	1.4%
Community Internet Europe Limited	Internet	1,015	634	17.4%	1.2%
Cyclacel Limited	Biotechnology	800	363	1.1%	0.7%
Elateral Holdings Limited	Software	2,125	245	24.4%	0.5%
Global Silicon Limited	Semiconductors	600	600	7.6%	1.1%
Haemostatix Limited	Biotechnology	53	53	3.6%	0.1%
HTC Healthcare Group plc	Consumer services	2,207	1,664	36.7%	3.1%
International Diagnostics Group plc	Diagnostics & devices	1,176	690	23.9%	1.3%
Lectus Therapeutics Limited	Biotechnology	248	248	7.0%	0.5%
Level Four Software Limited	Software	518	518	9.3%	1.0%
Lorantis Holdings Limited	Biotechnology	625	625	1.7%	1.2%
Methuen Publishing Limited	Publishing	1,119	1,463	43.7%	2.7%
Nanotecture Limited	Industrial products & services	87	87	0.8%	0.2%
Nomad Software Limited	Software	1,818	887	18.7%	1.7%
Opsys Management Limited	Electronics	1,561	268	–	0.5%
PanOpSys Limted	Diagnostics & devices	240	240	9.1%	0.5%
Perpetuum Limited	Electronics	435	435	8.0%	0.8%
Pelikon Limited	Electronics	708	708	5.5%	1.3%
Sibelius Software Limited	Software	1,400	1,463	12.0%	2.7%
Sift Group Limited	Internet	2,260	2,114	14.4%	4.0%
Teraview Limited	Diagnostics & devices	858	858	4.9%	1.6%
Total unquoted venture capital investments		28,876	18,929		35.5%
Total venture capital investments		34,604	23,768		44.6%
Listed fixed interest investments		2,302	2,302		4.3%
Listed equity investments		9,969	11,035		20.7%
Total investments		46,875	37,105		69.6%
Cash and other net current assets		16,230	16,230		30.4%
Net assets		**63,105**	**53,335**		**100.0%**

The respective cost of investments shown above represents the post merger cost to Quester VCT plc. This reflects the original cost of the Company's investments held immediately prior to the merger with Quester VCT 2 plc and Quester VCT 3 plc together with the merger value of those investments assumed from Quester VCT 2 and Quester VCT 3 on the merger.

Directors

Jock Birney (61), Chairman, spent the majority of his career in corporate finance at UBS until 1998 and four years subsequently with the private equity arm of Swiss Re. He is a non-executive director and investor in Canopius, a management buy out of a Lloyd's business, and in Hammonds Direct, a volume conveyancer.

Tom Scruby (71), former Chairman, is a non-executive director of Centaur Holdings plc and a former non-executive chairman of the Linguaphone Group 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. Tom will be retiring as a director at the forthcoming Annual General Meeting.

Andrew Holmes (61), the chairman of Quester, has substantial venture capital experience. He founded Quester in 1984. Prior to that he spent eight years with 3i, where he managed its 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 Quester VCT 4 plc and Quester VCT 5 plc and of a number of companies in the Quester portfolio.

Tom Sooke (61) has been chairman and non-executive director of a number of quoted and unquoted private equity funds and other companies in recent years, and is currently on the board of Matrix Income & Growth VCT plc and Matrix Income & Growth 3 VCT plc. Previously, 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 for a number of years. He was also one of the co-founding members of the British Venture Capital Association. Tom Sooke is chairman of the Audit Committee.

Christopher Wright (48) has significant experience of venture capital investing in technology and life sciences on both sides of the Atlantic, as well as having managed funds in other classes of private equity. Christopher is currently engaged in a number of roles, including Director of Merifin Capital Group, Brussels; Advisory director of Campbell Lutyens & Co. Ltd, London; Chairman of Wall Street Technology Partners LLC and Chairman of Noble Venture Finance. His current activities follow over 20 years' experience with Kleinwort Benson, latterly having been Global Head of Private Equity within the Dresdner Bank Group.

All the directors are non-executive and Jock Birney, Tom Scruby, Tom Sooke and Christopher Wright are independent of the Manager. Tom Scruby has not put himself forward for re-election, but in accordance with the Company's Articles of Association, Jock Birney, Christopher Wright and Andrew Holmes having been appointed during the year offer themselves for re-election at the Annual General Meeting to be held on 20 June 2006.

Directors' report

The directors present their report and the audited financial statements for the year ended 28 February 2006.

Activities and status

The principal activity of the Company during the year was the making of equity investments, mainly in unquoted companies. As at 28 February 2006 the Company was an investment company as defined in Section 266 of the Companies Act 1985 and has been granted provisional approval by HMRC 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 obtain 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 Daily Official List of the UK Listing Authority since 3 April 1996.

As a result of the merger, as detailed below, the Company has two subsidiaries, Quester VCT 2 plc and Quester VCT 3 plc. These companies do not have material assets or liabilities and have entered into voluntary liquidation.

Merger with Quester VCT 2 plc and Quester VCT 3 plc

On 28 June 2005 the High Court sanctioned a Scheme of Arrangement for the merger of Quester VCT plc, Quester VCT 2 plc and Quester VCT 3 plc. Under the terms of the Scheme of Arrangement the Formula Asset Values ("FAVs") per share of Quester VCT, Quester VCT 2 and Quester VCT 3 were calculated as at 23 June 2005, as 43.39p, 44.47p and 42.59p respectively.

On the basis of the resulting FAV ratios, the shareholders of Quester VCT 2 and Quester VCT 3 on the register on the close of business on 27 June 2005 received 1,024 shares and 981 shares respectively in Quester VCT for every 1,000 shares held by them and so on in proportion for any greater or lesser number of shares held. Dealings in the new shares issued by Quester VCT commenced on 29 June 2005. Following the merger, Quester VCT plc had 122,684,664 ordinary shares in issue. Following the merger the assets of Quester VCT 2 and Quester VCT 3 were transferred to the Company.

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 year and of future prospects.

Results and dividend

The net profit attributable to shareholders for the year ended 28 February 2006 was £2,862,000 (2005: loss of £2,037,000). The Board recommends the payment of a final dividend of 2.5p per share, equivalent to approximately £3.0million.

As at 28 February 2006, the Company had accumulated unrealised capital losses of £2,477,000 (2005: £1,474,000) and retained a positive balance on its profit and loss account of £7,853,000 (2005: £3,042,000) following a transfer of £2,475,000 from the Special Reserve (see note 13).

The mid-market price of Quester VCT plc's shares as at close of business on 28 February 2006 was 37.0p per share. The mid-market price ranged from 34.0p to 44.0p during the year.

Corporate governance

A report on corporate governance is set out on pages 32 to 33. The directors' remuneration report commences on page 35.

Purchase and cancellation of shares

During the year 2,956,331 ordinary shares of 5p each were bought in by the Company for cancellation at a total cost of £1,077,000. The impact on the net asset value was to increase it by 0.1p per share. The

Directors' report (continued)

purpose of the share buy-backs was to satisfy demand from those shareholders who sought to sell their shares during the period and reflects the very limited secondary market for shares in venture capital trusts generally. The Company may be able to buy-back limited volumes of its shares from time to time. However its ability to do so, may be constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA.

Directors

The directors of the Company who served during the period and their interests in the issued ordinary shares of 5p each of the Company as at 28 February 2006 and as at the date of this report were as follows:

	28 February 2006	28 February 2005 (or date of appointment if later)
JD Birney (Chairman – appointed 29 June 2005)	**166,611**	166,611
BTR Scruby	**40,249**	30,000
APG Holmes (resigned 31 January 2005, re-appointed 13 February 2006)	**525,202**	335,329
TP Sooke	**22,500**	22,500
C Wright (appointed 13 July 2005)	**7,852**	7,852

The interests in the ordinary shares of the Company held by APG Holmes, 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 is a director and shareholder of Querist Limited (the ultimate parent company of Quester Capital Management Limited ("QCML"), the Manager). He is also executive director of QCML. Save for the Management Agreement and the related performance incentive fee referred to in note 3, 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 18 of the financial statements.

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 2006, are set out in note 3 of the financial statements.

OLIM Limited and UBS Laing & Cruickshank Limited act as advisers to the Company in respect of investments in listed equities and fixed interest securities and have limited discretion to manage these portfolios.

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 2006 there were no days billings from the suppliers of services outstanding (2005: 9 days).

Substantial shareholdings

As at 28 February 2006 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.

Financial instruments

Information on the Company's objectives and policies in relation to financial risk and its management and exposure of price risk, credit risk, liquidity risk and cashflow risk is provided in note 17.

New UK accounting standards

During the year under review, the Company was required to adopt a number of new UK accounting standards (most notably FRS 25 and FRS 26). Accordingly, these accounting standards have been applied in the preparation of these financial statements. In adopting the new standards, the Company is required to restate certain brought forward balances. However, the adjustments are not judged to be material and as such the brought forward balances have not been restated. Further details are provided in note 1.

Annual general meeting

The Annual General Meeting will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 11.30 a.m. on 20 June 2006. The Notice of Annual General Meeting is set out at the end of this document. In addition to the standard ordinary resolutions, which include the adoption of the annual report and accounts, the re-election of Jock Birney, Andrew Holmes and Christopher Wright as directors and the appointment of the auditor, RSM Robson Rhodes LLP (replacing KPMG Audit plc who resigned during 2005), the following resolutions are proposed:

Authority to allot shares (Resolution 8 – ordinary resolution)

This resolution proposes to renew the directors' authority to allot relevant securities (as defined in the Companies Act 1985) of the Company. The maximum number of relevant securities that the directors could allot under this authority is 80,151,375 representing approximately 67% of the current issued share capital of the Company. The directors have no present intention to exercise this authority other than in connection with the dividend reinvestment scheme. The authority will lapse five years after it is passed.

Authority for the disapplication of pre-emption rights (Resolution 9 – special resolution)

This resolution proposes to renew the directors' power to allot equity securities for cash up to an aggregate nominal amount of £599,243 (being 10% of the Company's current issued share capital) without first offering the securities to existing shareholders. The directors consider that it may in certain circumstances be in the best interests of the Company to allot shares for cash otherwise than pro rata to existing shareholders.

Authority for the Company to purchase its own shares (Resolution 10 – special resolution)

This resolution proposes to renew the existing power of the Company to purchase its own shares up to a maximum number of 11,984,862 shares, which represents 10% of the total number of shares currently in issue. 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 could provide an additional 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. The maximum price which may be paid for an ordinary share will be an amount which is not more than 5% 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. Shares that are purchased will be cancelled. 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 the Company's shareholders.

Authority for the Company to cancel its share premium account (Resolution 11 – special resolution)

At the Annual General Meeting, the Company is seeking the approval of shareholders to the cancellation of its share premium account, which currently stands at £37.4million. The significant balance standing to the credit of the share premium account has primarily arisen following the issue of shares during the year in connection with the merger with Quester VCT 2 plc and Quester VCT 3 plc. The cancellation will not become effective unless it is approved by the High Court. The Company intends to seek this approval

Directors' report (continued)

from the High Court following the passing of the resolution by shareholders although it will only seek approval if it thinks it would be in the Company's best interests to do so at the relevant time.

The cancellation of the Company's share premium account, if it becomes effective, will increase the size of special reserve out of which the Company can fund buy-backs of its ordinary shares as and when it is considered by the Board to be in the best interests of shareholders. It will also enable dividends to be paid out of capital gains achieved on investment realisations earlier than would otherwise have been possible as transfers can be made from this reserve to the Profit and Loss account to offset realised losses as and when they arise. The amount of the share premium account to be cancelled will be the amount standing to the credit of that account at the time that the Court order confirming the reduction is registered. The directors do not expect the amount of the share premium account at that time to be materially different from the current amount which is, as noted above, £37.4million.

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

During the year KPMG Audit Plc resigned as the Company's auditor. RSM Robson Rhodes LLP, Chartered Accountants, was subsequently appointed. RSM Robson Rhodes is willing to continue in office and a resolution to 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

RJ Drover
Secretary
17 May 2006

Profit and loss account

For the year ended 28 February 2006

	Notes	2006 £'000	2005 (13 months) Restated £'000
Gain/(loss) on fair value through profit or loss on investments	9(c)	**3,056**	(1,128)
Loss on fair value through profit or loss on debtors	10	**–**	(750)
Income	2	**1,070**	457
Investment management fee	3	**(778)**	(331)
Other expenses	4	**(486)**	(285)
Profit/(loss) on ordinary activities before taxation		**2,862**	(2,037)
Tax on profit/(loss) on ordinary activities	6	**–**	–
Profit/(loss) on ordinary activities after taxation		**2,862**	(2,037)
Basic and diluted profit/(loss) per share	8	**3.3p**	(5.9)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.

The assets and liabilities of Quester VCT 2 plc and Quester VCT 3 plc were acquired by means of a Scheme of Arrangement during the year. The acquisition method of accounting has been adopted.

Note of historical cost profits and losses

For the year ended 28 February 2006

	Notes	2006 £'000	2005 (13 months) Restated £'000
Reported profit/(loss) on ordinary activities before taxation		**2,862**	(2,037)
Realisation of prior years' net unrealised gains/(losses) on investments	13	**429**	(5,155)
Historical cost profit/(loss) on ordinary activities before taxation		**3,291**	(7,192)
Historical cost profit/(loss) for the period		**3,291**	(7,192)

The accompanying notes are an integral part of these statements.

Balance sheet
As at 28 February 2006

	Notes	2006 £'000	2005 Restated £'000
Fixed assets			
Investments	9(a)	**37,105**	12,677
Current assets			
Debtors	10	**1,095**	793
Cash at bank		**15,693**	1,518
		16,788	2,311
Creditors (amounts falling due within one year)	11	**(558)**	(337)
Net current assets		**16,230**	1,974
Net assets		**53,335**	14,651
Share Capital and reserves			
Called-up equity share capital	12	**5,992**	1,661
Share premium account	13	**37,359**	3,410
Capital redemption reserve	13	**260**	112
Special reserve	13	**4,348**	7,900
Fair value reserve	13	**(2,477)**	(1,474)
Profit and loss account	13	**7,853**	3,042
Total equity shareholders' funds		**53,335**	14,651
Net asset value per share	14	**44.5p**	44.1p

The financial statements on pages 19 to 31 were approved by the directors on 17 May 2006 and were signed on their behalf by:

Jock Birney
Chairman

The accompanying notes are an integral part of this statement.

Cash flow statement

For the year ended 28 February 2006

	Notes	2006 £'000	2005 (13 months) £'000
Cash inflow/(outflow) from operating activities	15	**96**	(92)
Financial investment			
Purchase of venture capital investments	9(b)	**(6,001)**	(864)
Purchase of listed equities and fixed interest securities	9(b)	**(1,508)**	(2,962)
Sale/redemption of venture capital investments	9(b)	**9,868**	850
Sale/redemption of listed equities and fixed interest securities	9(b)	**8,190**	3,240
Amounts recovered from investments previously written off		**166**	–
Total financial investment		**10,715**	264
Mergers and acquisitions			
Funds received as part of the merger	9(d)	**6,141**	—
Merger costs		**(220)**	—
Total mergers and acquisitions		**5,921**	–
Equity dividends paid			
Equity dividends paid net of amounts re-invested through Dividend Reinvestment Scheme	7, 12	**(1,480)**	–
Financing			
Buy-in of shares		**(1,077)**	(370)
Increase/(decrease) in cash for the period		**14,175**	(198)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash for the period		**14,175**	(198)
Net funds at the start of the period		**1,518**	1,716
Net funds at the end of the period		**15,693**	1,518

Reconciliation of movement in shareholders' funds

For the year ended 28 February 2006

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
At 1 March 2005	1,661	3,410	–	8,012	(1,474)	3,042	14,651
Effect of creating a capital redemption reserve	–	–	112	(112)	–	–	–
At 1 March 2005 (restated)	1,661	3,410	112	7,900	(1,474)	3,042	14,651
Shares issued in connection with the merger	4,473	34,126	–	–	–	–	38,599
Shares issued under the Dividend Reinvestment Scheme	6	43	–	–	–	–	49
Shares purchased for cancellation	(148)	–	148	(1,077)	–	–	(1,077)
Merger costs	–	(220)	–	–	–	–	(220)
Realisation of prior years' net unrealised gains on investments	–	–	–	–	(429)	429	–
Profit on ordinary activities after taxation	–	–	–	–	–	2,862	2,862
Unrealised loss on revaluation of investments	–	–	–	–	(574)	574	–
Transfer from special reserve to profit and loss account	–	–	–	(2,475)	–	2,475	–
Interim dividend paid	–	–	–	–	–	(1,529)	(1,529)
At 28 February 2006	**5,992**	**37,359**	**260**	**4,348**	**(2,477)**	**7,853**	**53,335**

The accompanying notes are an integral part of these statements. See note 13 for further information on reserves.

Notes to the financial statements

1 Accounting policies

The Annual Report has been prepared using new accounting standards, which have been issued to begin the process of converging UK standards with International Financial Reporting Standards ('IFRS'). The relevant standards are FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Measurement. These standards have been adopted by the Company with effect from 1 March 2005 and the prior year comparatives have been restated accordingly.

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 valuation at fair value of fixed asset investments, and in accordance with UK Generally Accepted Accounting Policies ("UK GAAP").

Investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Board and other key management personnel.

Accordingly, upon initial recognition (using trade date accounting) the investments are designated by the Company as 'at fair value through profit or loss', and any unrealised increase or decrease in value is now recognised through the profit and loss account instead of the previous revaluation reserve. The effect of this change in accounting policy has been to decrease profit on ordinary activities after tax by £574,000 (2005: increase loss by £985,000) although the overall impact is net asset value neutral. Fair Value, which is initially taken to be an investment's cost, is measured as follows:

- UK listed and AIM-traded investments are valued at their bid prices at the close of the period as issued by the London Stock Exchange; investments listed overseas are valued at bid prices (where a bid price is available) or otherwise at fair value based on published price quotations. Previously all listed investments were valued with reference to closing mid market prices. The effect of this change in accounting policy on the net asset value of the Company as at 28 February 2006 has been to reduce it by £28,000. The comparative figures have not been restated, as the impact is immaterial;

- unquoted investments, where there is not an active market, are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the balance sheet date. Such investments are valued in accordance with the British Venture Capital Association ("BVCA") guidelines. Primary indicators of fair value are derived from earnings multiples, prices of recent investment or from net assets. In the absence of such primary indicators, fair value is assumed to be cost, except where there is evidence of a diminution value. Examples of events or changes that could indicate such a diminution 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.

In accordance with FRS 9, where the Company holds more than 20% but less than 50% of an investment and the investment is not a subsidiary, it is not treated as an associated company.

Gains and losses on investments

When the Company revalues its investments during an accounting period, any gains or losses arising are credited/charged directly to Profit and Loss account. Any gains or losses not considered to be permanent are subsequently transferred to the Fair Value Reserve, as a movement on reserves. When an investment is sold, or the carrying value is deemed to be impaired, any balance already held on the Fair Value 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. 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 and are charged wholly to the profit and loss account. 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.

In addition, transaction costs incurred on the purchase and sale of investments, totalling £20,000 for 2006, are now charged through the Profit and Loss account in the period in which they are incurred instead of being included within the cost of the investment or deducted from the proceeds of a sale. This has no impact on the net asset value of the Company but impacts the unrealised and realised gain or loss on investments. The comparative figures have not been restated, as the impact is immaterial.

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

	2006 £'000	2005 (13 months) £'000
Dividend income		
– Unlisted companies	**228**	37
– Listed companies	**405**	92
Interest receivable		
– Fixed interest securities	**162**	125
– Loans to unquoted companies	**124**	154
– Bank deposits	**82**	39
Other income	**69**	10
	1,070	457

3 Investment management fee

	2006 £'000	2005 (13 months) £'000
Investment management fee	**778**	331
Irrecoverable VAT	**104**	37
	882	368

Quester Capital Management Limited ("QCML") provides investment management services to the Company under an amended and restated management agreement dated 20 May 2005.

QCML is a wholly owned subsidiary of Querist Limited, a company in which APG Holmes is a beneficial shareholder. APG Holmes is an executive director of QCML.

Prior to the merger, QCML was entitled to receive an annual 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 fee was capped to ensure that the Company's running costs did not exceed 3.25% of closing net asset value. Following the merger, QCML is entitled to receive a management fee, determined quarterly in arrears, at the annual rate of 2.0% on the value of the Company's net assets at the end of each quarter. This new fee is similarly capped to ensure that the Company's running costs do not exceed 3.25% of closing net asset value. The management fee for the year amounted to £778,000 (2005: £331,000). This is stated net of an amount of £9,000 (2005: £116,000) being a reduction to achieve the necessary cap on running costs.

Upon the Company having paid or declared cash dividends (excluding 1.0p of the special interim dividend paid post merger) of an aggregate amount equal to 20% or more of the Company's Formula Asset Value (net of 1.0p of the special interim dividend) multiplied by the number of ordinary shares in issue immediately following the merger ("the FAV") by 28 February 2009, the Manager will then become entitled to a performance incentive fee of 2% of the FAV. Should cash dividends (excluding 1.0p of the special dividend) of an aggregate amount equal to 40% or more of the

Notes to the financial statements (continued)

FAV (net of 1.0p of the special interim dividend) be paid or declared by the same date, the Manager will then become entitled to an additional performance incentive fee of a further 1% of the FAV.

QCML also provides administrative and secretarial services to the Company. For the period prior to the merger it was entitled to a fee of £44,000 per annum (based on an amount adjusted in line with the RPI), which was pro rated to reflect a four month period. Following the merger the fee was increased to an annual amount of £60,000, to be adjusted annually in line with changes in the RPI. The resulting fee for the year amounted to £55,000, as stated in note 4.

4 Other expenses

	2006 £'000	2005 (13 months) £'000
Administrative and secretarial services	**55**	46
Directors' remuneration (note 5)	**52**	42
Auditor's remuneration		
– audit services	**14**	18
– non-audit services	**9**	8
Legal and professional expenses	**47**	29
Insurance	**32**	17
UKLA, LSE and registrar's fees	**38**	19
Management fees payable to OLIM Limited	**44**	–
Transaction costs	**20**	–
Irrecoverable VAT	**146**	82
Other	**29**	24
	486	285

5 Directors' remuneration

	2006 £'000	2005 (13 months) £'000
Fees paid to directors	**4**	13
Amounts paid to third parties, excluding VAT, in consideration of the services of directors	**48**	29
	52	42

The total fees paid or payable in respect of individual directors for the year is detailed in the directors' remuneration report commencing on page 35.

6 Tax on ordinary activities

	2006 £'000	2005 (13 months) £'000
Corporation tax payable	**–**	–

Reconciliation of profit on ordinary activities to taxation

	2006 £'000	2005 (13 months) £'000
Profit/(loss) on ordinary activities before tax	**2,862**	(2,037)
Tax on profit on ordinary activities at standard UK corporation tax rate at 30% (2005: 30%)	**859**	(611)
Effects of:		
Non-taxable items	**(1,107)**	131
Unutilised expenses	**248**	480
	–	–

7 Dividends paid and proposed

	2006 £'000	2005 (13 months) £'000
Interim dividend: 1.25p per share paid 11 November 2005	**1,529**	–

The directors have proposed a final dividend of 2.5p per share, equivalent to £2,996,000, in respect of the year ended 28 February 2006, which, if approved by shareholders, would be payable on 3 July 2006.

8 Profit per share

The profit per share of 3.3p (2005: loss of 5.9p) is based on the profit on ordinary activities after tax of £2,862,000 (2005: loss of £2,037,000) and on the weighted average number of ordinary shares in issue during the year of 85,789,025 (2005: 33,699,680). There is no dilution effect in respect of the year ended 28 February 2006 (2005: £nil).

9 Investments

9(a) Summary of investments

	2006 £'000	2005 £'000
Venture capital investments	**23,768**	7,636
Bonds and listed equity investments	**13,337**	5,041
	37,105	12,677
Bonds and equity investments comprise:		
– Listed fixed interest securities	**2,302**	2,693
– Listed FTSE 350 equity shares	**11,035**	2,348
	13,337	5,041

9(b) Movements in investments

	Venture capital investments £'000	Bonds & equity investments £'000	Total £'000
Cost at 1 March 2005	9,222	4,929	14,151
Unrealised net (loss)/gain at 1 March 2005	(1,586)	112	(1,474)
Valuation at 1 March 2005	7,636	5,041	12,677
Movements in the year:			
Acquired as part of merger	18,638	13,458	32,096
Purchases at cost	6,001	1,508	7,509
Disposals			
– proceeds	(9,868)	(8,190)	(18,058)
– realised net gains on disposal	3,648	545	4,193
Write-off of investments	(729)	–	(729)
Amortisation of fixed interest securities	–	(9)	(9)
Unrealised (loss)/profit on revaluation of investments	(1,558)	984	(574)
Valuation at 28 February 2006	**23,768**	**13,337**	**37,105**
Book cost at 28 February 2006	25,326	12,271	37,597
Unrealised net (loss)/profit at 28 February 2006	(1,558)	1,066	(492)
Valuation at 28 February 2006	**23,768**	**13,337**	**37,105**

Notes to the financial statements (continued)

9(c) Profit/(loss) on investments

The overall gain/(loss) on fair value through profit or loss on investments, as shown in the Profit and Loss account, is analysed as follows:

	2006 £'000	2005 £'000
Net gains on disposal	**4,193**	(14)
Write-off of investments	**(729)**	(839)
Write-down of debtors	**–**	(91)
Recoveries made in respect of investments previously written off	**166**	51
Unrealised loss on revaluation of investments	**(574)**	(235)
	3,056	(1,128)

The realised net gains on disposal represent the difference between proceeds received and the carrying values of those investments sold during the year.

The amounts reported under "write-off of investments" represent the proportion of the carrying value of certain investments that have, in the opinion of the directors, suffered an impairment in value, which is regarded as permanent. These write-offs amounted to £729,000 in the year ended 28 February 2006 (2005: £839,000).

9(d) Merger with Quester VCT 2 plc and Quester VCT 3 plc

The Company merged, by means of a Scheme of Arrangement ("Scheme"), with Quester VCT 2 plc and Quester VCT 3 plc during the year, as reported in the directors' report on page 15.

Under the Scheme, all of the shares in Quester VCT 2 plc and Quester VCT 3 plc were cancelled (excluding one share in each company) and new shares in Quester VCT plc were issued by the Company to the shareholders of Quester VCT 2 and Quester VCT 3.

The assets and liabilities of Quester VCT 2 and Quester VCT 3 were transferred to Quester VCT following the merger. The consideration for such transfer being in cash on completion. The Scheme provided for the consideration, in whole or part, to remain outstanding by way of loan. The costs of the Scheme were borne by all three companies in an agreed manner as defined in the Listing Particulars.

The merger has been accounted for under the acquisition method of accounting. The assets and liabilities of Quester VCT 2 and Quester VCT 3, which were acquired, are set out below:

	Quester VCT 2 plc £'000	Quester VCT 3 plc £'000	Total £'000
Investments	15,557	16,468	32,025
Current Assets			
Debtors	636	649	1,285
Cash	3,110	3,031	6,141
	3,746	3,680	7,426
Current liabilities			
Sundry creditors	(200)	(142)	(342)
Net current assets	3,546	3,538	7,084
Proportion of shared merger expenses	(249)	(261)	(510)
Fair value of assets transferred	**18,854**	**19,745**	**38,599**
Consideration	**18,965**	**19,852**	**38,817**

The book value of the assets and liabilities transferred equates to their fair values. There are no adjustments required for accounting policies or other matters and no revaluations.

In accordance with FRS 6, the acquisition of the assets Quester VCT 2 and Quester VCT 3 was a substantial acquisition. A Summarised Statement of Total Return from 1 March 2005, the beginning of each company's financial year, to the date of acquisition on 29 June 2005 is set out below:

	Quester VCT 2 plc Period 1 March 2005 to 29 June 2005 £'000	Quester VCT 2 plc Year ended 28 February 2005 £'000	Quester VCT 3 plc Period 1 March 2005 to 29 June 2005 £'000	Quester VCT 3 plc Year ended 28 February 2005 £'000
(Loss)/profit on realisation of investments	(39)	(918)	–	450
Income	356	316	276	280
Investment management fee	(156)	(531)	(163)	(512)
Other expenses	(113)	(332)	(92)	(268)
Write-down of debtors	–	(750)	–	(122)
Loss on ordinary activities before taxation	48	(2,215)	21	(172)
Tax on ordinary activities	–	–	–	–
Loss on ordinary activities after taxation	**48**	**(2,215)**	**21**	**(172)**

10 Debtors

	2006 £'000	2005 £'000
Other debtors	**966**	410
Prepayments and accrued income	**129**	245
Debtors: amounts falling due in over one year	**–**	138
	1,095	793

Other debtors include an amount due from Quester Capital Management Limited, being an advance payment of the management fee of £243,000 (2005: £100,000) and amounts totalling £31,000 (2005: £144,000) 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 £29,000 in respect of the period ended 28 February 2005 and £2,000 in respect of the period ended 29 June 2005.

Other debtors and debtors falling due in over one year include loan notes received in connection with the sale of the investment in CDC Solutions Limited in December 2003. The loan notes receivable within one year amount to £415,000 (2005: £139,000). In 2005 there was a loan note due in over one year of £138,000. A downward revaluation of £750,000 was made in 2005 to reverse a previously recorded unrealised gain of the same amount arising from the investment in CDC Solutions Limited.

11 Creditors (amounts falling due within one year)

	2006 £'000	2005 £'000
Trade creditors	**–**	30
Accruals	**558**	291
Other creditors	**–**	16
	558	337

Notes to the financial statements (continued)

12 Called-up equity share capital

	2006 £'000	2005 £'000
Authorised:		
200,000,000 (2005: 44,000,000) ordinary shares of 5p	**10,000**	2,200
Allotted, issued and fully paid:		
119,848,625 (2005: 33,227,610) ordinary shares of 5p	**5,992**	1,661

As part of the merger, the Company increased its authorised share capital by 156,000,000 shares to 200,000,000 shares. On 29 June 2005, 43,707,152 and 45,749,902 ordinary shares were issued to former shareholders of Quester VCT 2 plc and Quester VCT 3 plc respectively.

The company bought back for cancellation 2,956,331 ordinary shares with a nominal value of £147,817, representing 8.9% of the opening issued share capital, or 3.4% of the average issued share capital over the year, at a cost of £1,077,000. In addition a further 120,292 shares with an aggregate nominal value of £6,015 were issued under the terms of the Dividend Reinvestment Scheme during the year for net consideration of £48,610.

13 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Fair value reserve £'000	Profit and loss account £'000
At 1 March 2005	3,410	–	8,012	(1,474)	3,042
Effect of creating a capital redemption reserve	–	112	(112)	–	–
At 1 March 2005 (restated)	3,410	112	7,900	(1,474)	3,042
Shares issued in connection with the merger	34,126	–	–	–	–
Shares issued under the Dividend Reinvestment Scheme	43	–	–	–	–
Shares purchased for cancellation	–	148	(1,077)	–	–
Merger costs	(220)	–	–	–	–
Realisation of prior years' net unrealised gains on investments	–	–	–	(429)	429
Profit on ordinary activities after taxation	–	–	–	–	2,862
Unrealised loss on revaluation of investments	–	–	–	(574)	574
Transfer from special reserve to profit and loss account	–	–	(2,475)	–	2,475
Interim dividend paid (note 7)	–	–	–	–	(1,529)
At 28 February 2006	**37,359**	**260**	**4,348**	**(2,477)**	**7,853**

A Capital Redemption Reserve has been created to reflect the repurchase and cancellation of shares. The opening reserves have been restated accordingly.

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 and also to allow capital dividends to be paid to shareholders earlier than would otherwise have been possible as transfers can be made from this reserve to the Profit and Loss account to offset realised losses as and when they arise. During the year, a transfer of £2,475,000 was made from the Special Reserve to the Profit and Loss account, £946,000 of which offsets the realised losses incurred on investments in the year to 28 February 2006. The balance of £1,529,000 has enabled the dividend of 1.25p per share to be paid in November 2005.

Any unrealised gains and losses arising on the inclusion of investments at fair value, which the directors do not consider to be permanent, are transferred to the Fair Value Reserve.

14 Net asset value per share

The calculation of net asset value per share as at 28 February 2006 of 44.5p (2005: 44.1p) is based on net assets of £53,335,000 (2005: £14,651,000) divided by the 119,848,625 ordinary shares in issue at that date (2005: 33,227,610). There is no dilution effect in respect of the year ended 28 February 2006 (2005: nil).

15 Reconciliation of operating profit to net cash outflow from operating activities

	2006 £'000	2005 (13 months) Restated £'000
Profit/(loss) on ordinary activities before taxation	**2,862**	(2,037)
(Gain)/loss on fair value through profit or loss on investments	**(3,056)**	1,128
Loss on fair value through profit or loss on debtors	**–**	750
Decrease in debtors	**93**	59
Increase/(decrease) in creditors	**221**	(91)
Amortisation of fixed interest securities	**9**	71
Net (purchase)/settlement of bought interest on bonds	**(33)**	28
Cash inflow/(outflow) from operating activities	**96**	(92)

16 Commitments and guarantees

As at 28 February 2006 there were commitments totalling £2,580,000 (2005: £50,000) in respect of follow-on investments in existing portfolio companies and guarantees.

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 recognised 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 year 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
- 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.

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

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 (2005: £nil).

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

Notes to the financial statements (continued)

Interest rate risk profile of financial assets

	2006 £'000	2005 £'000
Floating rate (calculated by reference to LIBOR)	**707**	254
Fixed rate	**4,584**	3,831
Non-interest bearing	**48,233**	10,728
	53,524	14,813

Financial assets with a fixed interest rate comprise listed fixed interest securities of £2,302,000 and loans to unquoted venture capital portfolio companies of £2,282,000. The average interest rate and time to maturity for these assets is shown below.

	2006 £'000	2005 £'000
Fixed rate financial assets weighted average interest rate	**5.4%**	9.5%
Weighted average time for which rate is fixed (years)	**0.8**	1.3

Fair values of financial assets

All of the Company's financial assets are held at fair value as at 28 February 2006.

	2006 Book value and fair value £'000	2005 Book value and fair value £'000
Primary financial instruments:		
– Quoted investments	**18,176**	6,380
– Unquoted investments	**18,929**	6,505
– Debtors	**966**	410
– Cash at bank and in hand	**15,693**	1,518

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 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.

	No. of directors	2006 £'000	No. of directors	2005 £'000
Linguaphone plc	–	–	1	20
Surfcontrol plc (disposal)	–	–	1	33
Anadigm Limited (disposal)	**1**	–	2	7
CDC Solutions Limited (disposal)*	–	–	3	8

*Receipt of deferred proceeds following the disposal in December 2003

Quester Services Limited, a company for which APG Holmes acts as a director may, from time to time, be eligible to receive transaction fees and/or directors' fees from investee companies. During the period ended 28 February 2006, fees of £129,000 attributable to the investments of the Company were received pursuant to these arrangements (2005: £28,000).

19 Co-investment

The Company has made venture capital investments in companies in which other Quester managed funds have also invested. Co-investment details for the top ten investments, by value, are provided in the section beginning on page 8. Details for other investments are as follows:

Company	Quester co-investors
Advanced Valve Technologies Limited	Quester VCT 4 and Quester VCT 5
Allergy Therapeutics plc	Quester VCT 4 and Quester VCT 5
Anthropics Technology Limited	Quester VCT 4 and Quester Venture Partnership
Arithmatica Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Avidex Limited	Quester VCT 4, Quester VCT 5, Quester Venture Partnership and ISIS College Fund
Casella Group Limited	–
Cluster Seven Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Community Internet Europe Limited	–
Cyclacel Limited	Quester VCT 4 and Quester VCT 5
Elateral Holdings Limited	Quester VCT 4
Global Silicon Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Haemostatix Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Imagesound plc	–
International Diagnostics Group plc	–
Lectus Therapeutics Limited	Quester VCT 4, Quester VCT 5, Quester Venture Partnership and Sulis Seedcorn Fund
Level Four Software Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Lorantis Holdings Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Nanotecture Limited	Quester VCT 5, Quester Venture Partnership and Sulis Seedcorn Fund
Opsys Management Limited	–
PanOpSys Limited	Quester VCT 4, Quester VCT 5 and Quester Venture Partnership
Pelikon Limited	Quester VCT 4 and Quester VCT 5
Perpetuum Limited	Quester VCT 4, Quester VCT 5, Quester Venture Partnership and Sulis Seedcorn Fund
Sopheon plc	–
Surfcontrol plc	–
XKO plc	–

Corporate governance

Except where stated, the Board considers that the Company has complied throughout the year with the provisions of section 1 of the Combined Code on Corporate Governance and the related guidance and good practice suggestions published by the Financial Reporting Council in July 2003.

The Board

Following the merger with Quester VCT 2 plc and Quester VCT 3 plc the Board composition changed. As at the year end, it consisted of five non-executive directors, four of whom are considered independent of the Company's investment manager. Andrew Holmes resigned as director of the Company on 31 January 2005 to assist the independent evaluation of the merger proposals by the Board. He was re-appointed on 13 February 2006.

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 remuneration 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 regular basis. Any additional information is supplied on request.

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

	Scheduled Board meetings	Audit Committee meetings
JD Birney (Chairman – appointed 29 June 2005)	4/4	1/1
BTR Scruby	4/5	2/2
SM Bakewell (resigned 29 June 2005)	0/1	0/1
APG Holmes (resigned 31 January 2005, re-appointed 13 February 2006)	n/a	n/a
TP Sooke	5/5	2/2
D Quysner (appointed 29 June 2005, resigned 13 July 2005)	1/1	n/a
C Wright (appointed 13 July 2005)	4/4	1/1

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

There is a formal process for evaluating the performance of the Board. 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 and attached to the Combined Code, 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. Performance evaluations are conducted annually.

The Articles of Association require that all directors be subject to re-election procedures by rotation at the Annual General Meeting ("AGM"). All directors, in accordance with the code, will submit themselves for re-election at least once every three years. The Articles of Association also require that any directors appointed by the Board during the year shall hold office until the following AGM and shall then be eligible for re-election. Accordingly, JD Birney, APG Holmes and C Wright are proposed for re-election at the AGM. The Chairman has conducted a performance evaluation of Andrew Holmes and Christopher Wright, taking into account the views of all directors. He considers that their performance continues to be effective and valuable and that they continue to demonstrate commitment to their roles. He therefore believes that they should be re-elected to the Board. In relation to the proposed re-election of the Chairman, a performance evaluation has been conducted by Tom Sooke, who has concluded, after taking into account the views of all directors, that his performance also continues to be effective and valuable and that he too continues to demonstrate the necessary commitment. He therefore believes that Jock Birney 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 four independent non-executive directors and is chaired by Tom Sooke. As the Company's Board is small, Jock Birney, the Chairman, is also a member of the Audit Committee. 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 interim financial statements, annual report and accounts and the terms of appointment of the auditor together with its remuneration. The Committee undertakes a periodic review of the terms of the management agreement with Quester Capital Management Limited ("QCML"). The auditor, RSM Robson Rhodes LLP, also performs tax services, monitors compliance with the venture capital trust provisions and advises on accounting issues. The Audit Committee reviews the need for non-audit services and authorises such services on a case-by-case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the auditors. The Audit Committee has satisfied itself that the auditors are independent and that their objectivity is unimpaired.

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 been monitored throughout the year via the production of quarterly exception reports, which are presented to the Board. These reports are prepared by the Manager. 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 FSA, 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 20 June 2006 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, brief presentations will be given by representatives 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 written queries made by shareholders during the course of 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. Under that law the directors have elected to prepare the financial statements in accordance with UK GAAP. 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. The Manager maintains all such records at the Company's registered office. 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 commencing on page 36.

The Board as a whole considers directors' remuneration and, as such, 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 (2005: £80,000). Directors' fees payable during the year totalled £52,000, (2005: £42,000) as set out below and in note 5.

As detailed in note 3, QCML will become entitled to a performance incentive fee upon achieving certain defined performance levels. Andrew Holmes is an executive director QCML, 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 any director's remuneration should be performance related in light of their 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.

Amounts paid to third parties in respect of services provided by the directors who served during the year are listed below.

	2006 £'000	**2005 (13 months) £'000**
J Birney (Chairman – appointed 29 June 2005))	**10**	–
BTR Scruby	**15**	16
SM Bakewell (resigned 29 June 2005)*	**4**	13
APG Holmes (resigned 31 January 2005, re-appointed 13 February 2006)	**–**	–
TP Sooke	**14**	13
D Quysner (appointed 29 June 2005, resigned 13 July 2005)	**–**	–
C Wright (appointed 13 July 2005)	**9**	–

*Emoluments received directly with no amounts being paid to third parties.

On an annualised basis, the emoluments of the current directors are £15,000 (£20,000 for the Chairman).

None of the directors received any other remuneration or benefit during the year except as disclosed in these accounts. APG Holmes has waived his entitlement to directors' fees for all accounting periods ended on, or prior to, 28 February 2006.

There is no notice period stipulated in the service contracts 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 ordinary 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 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 17 May 2006 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 19 to 31. These financial statements have been prepared under the accounting policies set out therein. 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 shareholders, 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 shareholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s shareholders 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’ responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager’s Report, the section on the Ten Largest Venture Capital Investments and the Corporate Governance Statement. 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 28 February 2006 and of its profit for the year 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.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditor
London, England
17 May 2006

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Quester VCT plc will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 11.30 a.m. on 20 June 2006 for the following purposes:

As ordinary business

As ordinary business, to consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 8 will be proposed as ordinary resolutions and number 9 will be proposed as a special resolution. Special notice has been given in respect of resolution number 7.

1. To receive, consider and adopt the annual report and accounts for the year ended 28 February 2006, together with the auditor's report on those accounts and the auditable part of the directors' remuneration report.

2. To approve the directors' remuneration report for the year ended 28 February 2006.

3. To declare a final dividend of 2.5p per share in respect of the year ended 28 February 2006.

4. To re-elect Jock Birney as a director.

5. To re-elect Andrew Holmes as a director.

6. To re-elect Christopher Wright as a director.

7. To appoint RSM Robson Rhodes LLP, Chartered Accountants, as auditor of the Company and to authorise the directors to fix its remuneration.

8. **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 £4,007,568.75 provided that:

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

   (b) notwithstanding paragraph (a) 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

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

9. **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 8 above as if subsection (1) of section 89 of the Act did not apply to the allotment, provided that the power hereby conferred shall be limited to:

   (a) 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

   (b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value not exceeding £599,243; and this power, unless renewed, shall expire at the conclusion of the Annual General Meeting of the Company in 2007 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.

Notice of annual general meeting (continued)

As special business
To consider and, if thought fit, to pass the following resolutions which shall be proposed as special resolutions :

10. **Authority for the Company to purchase its own shares**
THAT the Company be and it is hereby generally and unconditionally authorised for the purposes of section 166 of the Act 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:

(a) the maximum number of Ordinary Shares authorised to be purchased is 11,984,862;

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

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

(d) the authority hereby conferred shall expire on the earlier of the date which is fifteen months from the date of this resolution and the date of the Annual General Meeting of the Company in 2007; and

(e) 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.

11. THAT the share premium account of the Company be and it is hereby cancelled.

By order of the Board

Richard Drover
Secretary

29 Queen Anne's Gate
London, SW1H 9BU
17 May 2006

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, (as enclosed), duly signed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by not later than 11.30 a.m. on 18 June 2006. 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 11.30 a.m. on 18 June 2006 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 11.30 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 and the interests of their families in the Company's shares are available for inspection at the Company's registered office, 29 Queen Anne's Gate, London, SW1H 9BU during normal business hours (public holidays excluded) and will be made available for inspection at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.
5. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding.

Corporate information

Directors
Jock Birney (Chairman)
Andrew Holmes
Tom Scruby
Tom Sooke
Christopher Wright

Secretary
Richard Drover

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

Stockbroker
Noble & Company Limited
120 Old Broad Street
London EC2N 1AR

Solicitors
Travers Smith
10 Snow Hill
London EC1A 2AL

Auditor and VCT Tax Adviser
RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditor
30 Finsbury Square
London EC2P 2YU

Quoted and Fixed Interest Investment Advisers
OLIM Limited
Pollen House
10-12 Cork Street
London W1S 3NP

UBS Laing & Cruickshank Investment Limited
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 8639 2342

Bankers
Barclays Bank plc
1 Churchill Place
London E14 5PP

Shareholder information

Annual General Meeting — 11.30 a.m. on 20 June 2006

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 Registrars, no later than 11.00 a.m. on 18 June 2006.

Dividends

The directors have proposed a final dividend of 2.5p per share in respect of the year ending 28 February 2006.

Payment date	3 July 2006
Ex-dividend date	7 June 2006
Associated record date	9 June 2006

Shareholders should note that the dividend reinvestment scheme operated by the Company has been withdrawn following a recent change to the Prospectus Rules that did not provide for the type of scheme operated by the Company. It has been replaced with a new scheme, details of which are being sent to shareholders together with these accounts.

Share price and net asset value announcements

The Company's ordinary shares are listed on the London Stock Exchange. The mid-market price of shares in Quester VCT plc is reported daily in the Financial Times in the Investment Companies section of the London Share Service. Share price information can also be obtained from many financial websites. Estimates of the Company's current net asset value are reported on certain days in the Financial Times. These estimates are not provided by Quester.

The Company generally announces changes in its net asset value 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 month end 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 UKLA rules.

Share buy-backs

There is a very limited secondary market for shares in venture capital trusts generally. The Company may be able to buy-back limited volumes of its shares from time to time. However, its ability to do so is, or may be, constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA. Shareholders seeking to sell their shares should contact Janet Chalkley at Quester (see below for details).

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

Notification of change of shareholder details

Communications with shareholders are mailed to the registered address held by Capita Registrars, the Company's registrar. In the event of a change of address or other amendment, this should be notified to Capita Registrars under the signature of the registered holder.

Investor Relations

Shareholders may now view details of their shareholdings online. The service may be accessed from the Investor Relations section of the Quester website, www.quester.co.uk

If shareholders have any questions or comments about their investment, please contact Janet Chalkley at Quester:

Tel: 020 7222 5472   Email: janet.chalkley@quester.co.uk

In addition, the Board is always pleased to respond to any written shareholder queries, which should be sent to the Company's registered office.

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