



Quester VCT 4 plc

Interim statement
for the six months ended
30 April 2003

Financial highlights

Per ordinary share (pence)	6 months to 30 April 2003	Year to 31 October 2002	6 months to 30 April 2002
Capital values			
Net asset value	75.0	81.8	91.3
Share price	82.5	82.5	80.0
Return and dividends			
Dividend	—	1.15	—
Cumulative dividend	2.90	2.90	1.75
Total return*	77.90	84.70	93.05

*Net asset value plus cumulative dividend per share

Highlights from the Chairman's statement and Investment manager's report

- Continued progress has been made towards completion of the initial phase of the Company's investment programme
- The portfolio so far established is balanced by sector and well spread, with investments now completed in 27 companies
- Emphasis is being placed on the need to retain prudent reserves for expected follow-on investment, to enable the Company to contribute to the further finance required by successful portfolio companies as they grow
- Despite the currently adverse environment, the Board considers that the portfolio of investments completed to date is capable of delivering attractive returns to shareholders in the longer term

Chairman's statement

INTRODUCTION

In the six months ended 30 April 2003 continued progress has been made towards completion of the initial phase of the Company's investment programme.

INVESTMENTS

We have continued to take a cautious approach to the selection of new investments, with one new investment being completed in the six months to 30 April 2003, increasing the portfolio to 27 companies, and one further new investment in course of completion since that date.

Underlying deal flow has been active and a number of other investment opportunities are currently in due diligence. We expect that the process of selecting the remaining companies for a portfolio of 30 to 35 investments will be essentially complete by 31 October 2003.

In view of present conditions in the venture capital market, we are placing much emphasis on the need for the Company to retain prudent reserves for expected follow-on investment, to enable it to contribute to the further finance required by successful portfolio companies as they grow.

The business conditions faced by small companies, particularly in technology-related sectors, have continued to be very difficult and some of the companies in which Quester VCT 4 has invested have suffered as a result. In arriving at a fair valuation of the portfolio, it has been necessary to make or, in some cases, to increase provisions in respect of certain investments where the business has fallen behind plan or to reflect current valuation levels in the venture capital market generally.

NET ASSETS, REVENUE AND DIVIDENDS

Net revenue attributable to shareholders for the half-year was £103,000 (0.2 pence per share), which was derived from dividends on listed equities, interest on bonds and bank deposit interest, after the deduction of management fees and other expenses charged to revenue. The directors are not declaring an interim dividend.

The provisions in respect of venture capital investments, together with valuation changes in the quoted equity and bond portfolios and expenses charged to capital, amounted to a loss of 7.0 pence per share, the overall result being a reduction in the net asset value per share from 81.8 pence at 31 October 2002 to 75.0 pence at 30 April 2003.

OUTLOOK

Adverse underlying conditions for many small companies persist, despite recent improvements in stock market sentiment, and we have again to report a decline in the net asset value per share. In view of the planned reduction in the level of income, the Board does not expect to recommend a final dividend.

Despite the currently adverse environment, the Board considers that the portfolio of investments completed to date, covering a diverse range of companies operating in high-growth sectors, is capable of delivering attractive returns to shareholders in the longer term.

Robert Wright

Chairman

1 July 2003

Investment manager's report

OVERVIEW

During the six months ended 30 April 2003, we have made further progress in the initial investment phase of the Company. In the current difficult conditions in the venture capital market, we have continued to take a cautious approach to the selection of new investments. We have been unwilling to compromise on the quality of the investment opportunities that we add to the portfolio.

PROGRESS WITH VENTURE CAPITAL INVESTMENT

Quester's position in the venture capital market continues to attract a strong flow of investment opportunities.

During the six months ended 30 April 2003, one new investment was completed – in Oxxon Pharmaccines Limited, an early stage company in the healthcare and life sciences sector – at an initial cost of £1.0 million. This new investment was made alongside other Quester funds, including one other venture capital trust and Quester's fund for institutional investors. Follow-on investments totalling £0.9 million were completed in six existing portfolio companies. This further investment brought the total of Quester VCT 4's venture capital investments at 30 April 2003 to £22.1 million in 27 companies at an average cost of £820,000.

Since the end of the half year, one further new investment is in course of completion – in an early stage company in the software sector – at an initial cost of £580,000. A number of other opportunities generated by Quester's deal flow are currently in due diligence. We expect that the process of selecting companies for the initial portfolio will be essentially complete by 31 October 2003.

The portfolio that we are building for Quester VCT 4 is an early stage venture capital portfolio, consisting largely of technology-related companies serving markets with considerable growth potential over the long term. These young companies will require further rounds of finance as they grow. It is important that Quester VCT 4 should be in a position to contribute to this funding process, provided the companies concerned continue to make satisfactory progress. Accordingly, Quester VCT 4 holds reserves for further investment in existing portfolio companies. If the reserves scheduled for investment in the second half of the current year are taken into account, the total funds allocated to the current venture capital portfolio (at cost) represent approximately 63% of net assets at 30 April 2003.

The retention of reserves for follow-on investment is of particular importance in the current difficult conditions in the venture capital market, and is one of the reasons why we consider that a venture capital portfolio of about 30 to 35 investments is appropriate.

Investment manager's report – continued

The VCT legislation requires that by 31 October 2003 at least 70% of the Company's investments must be represented by qualifying holdings (within the definitions laid down by the Inland Revenue). As a result of the investment strategy described above, the rate of growth in the total of qualifying holdings over the next six months is unlikely to vary significantly from the average achieved to date. Accordingly, in order that the 70% requirement is complied with, it is intended that part of the Company's funds should be switched into types of bank deposit that do not represent investments within the relevant definition.

This will result in some reduction in the income of the Company but will permit the venture capital portfolio to be constructed in a manner that is appropriate to current market conditions and in the interests of long term capital growth.

A WELL BALANCED PORTFOLIO

The portfolio so far established is balanced by sector and well spread. A summary of the sectors currently covered by the portfolio is provided in the table below:

Sector	Existing venture capital portfolio at cost %	Cost £'000	Number of investments
Software	30.1	6,667	7
Healthcare & life sciences	19.9	4,406	7
Industrial products & services	10.4	2,291	2
Communications	10.2	2,250	4
Semiconductors	9.7	2,154	2
Electronics	9.0	1,989	2
Internet	6.2	1,375	2
Energy	4.5	1,000	1
	100.0	22,132	27

VALUATION OF THE VENTURE CAPITAL PORTFOLIO

The unquoted investments have been valued in line with the Company's accounting policies, which are based on the guidelines issued by the British Venture Capital Association.

Over the last six months the business conditions faced by small companies, particularly in technology-related sectors, have remained very difficult. Some of the companies in which Quester VCT 4 has invested have suffered as a result. Provisions have been made or, in some cases, increased in respect of certain investments where the business has fallen behind plan or to reflect current valuation levels in the venture capital market generally.

Overall, provisions of a further £3.1 million have been made in the half year, bringing total provisions against cost of the unquoted investments to £7.0 million against 15 investments. One investment, in a company whose shares are traded on AIM, is carried at mid-market value, which at 30 April 2003 represented a valuation reduction against cost of £589,000 (the market price has subsequently seen some recovery). The impact of these provisions and valuation reduction is to bring the unrealised loss on the venture capital portfolio to £7.6 million.

LISTED EQUITY AND BOND PORTFOLIOS

Approximately £7.6 million, representing 15% of net funds raised, has been set aside for investment in listed equities, managed by Newton Investment Management Limited. As at 30 April 2003, a total of £5.2 million at cost was invested in listed equities, representing some 68% of the funds allocated to this portfolio, with the balance being held in cash or bonds. As at 30 April 2003, the listed equity portfolio was showing an unrealised loss of £900,000.

Funds awaiting investment in venture capital opportunities are largely invested in short-dated bonds. At 30 April 2003 the bond portfolio amounted to £21.0 million at cost and was standing at a valuation of an equivalent amount. A proportion of the bond portfolio will be switched into venture capital investments during the remainder of the current year and in following years. In addition, for the reason stated above, part of the bond portfolio will be switched into bank deposits with effect from 31 October 2003. As a result, there will be a reduction in the level of interest income of the Company over the remainder of the current year and in following years.

CONCLUSION

The initial investment phase of the Company is nearing completion with 27 venture capital investments having been completed towards the likely total of 30 to 35 such investments. As has been emphasised earlier, we are building an early stage venture capital portfolio with a focus largely on technology-related companies serving markets that have considerable growth potential over the long term. Despite the very tough current conditions for the majority of young companies and the uncertainty of current valuation measures, the portfolio has attractive upside potential.

Quester Capital Management Limited
Manager
1 July 2003

Fund summary

AS AT 30 APRIL 2003

	Cost £'000	Valuation £'000	% of fund by value
Ten largest venture capital investments			
Automatic Parallel Designs Limited	1,154	1,154	2.9%
Anadigm Limited	1,000	1,000	2.5%
CDC Solutions Limited	1,000	1,000	2.5%
Footfall Limited	1,000	1,000	2.5%
Workshare Limited	1,000	1,000	2.5%
Oxxon Pharmaccines Limited	987	987	2.5%
Bowman Power Limited	1,000	975	2.5%
First Index Group Limited	1,291	969	2.5%
Sift Group Limited	875	875	2.2%
Avidex Limited	733	733	1.9%
	10,040	9,693	24.5%
Other venture capital investments	12,093	4,885	12.3%
Total venture capital investments	22,133	14,578	36.8%
Listed fixed interest investments	20,996	21,029	53.0%
Listed equity investments	5,210	4,306	10.9%
Total investments	48,339	39,913	100.7%
Cash and net liabilities	(268)	(268)	(0.7%)
Net assets	48,071	39,645	100.0%

Unaudited financial statements

STATEMENT OF TOTAL RETURN

Incorporating the revenue account of the Company

	Note	6 months ended 30 April 2003			6 months ended 30 April 2002			Year ended 31 October 2002
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Losses on investments		–	(3,450)	(3,450)	–	(465)	(465)	(5,008)
Income		563	–	563	811	–	811	1,479
Investment management fee		(251)	(251)	(502)	(240)	(240)	(480)	(962)
Other expenses		(209)	–	(209)	(181)	–	(181)	(296)
Return/(loss) on ordinary activities before taxation		103	(3,701)	(3,598)	390	(705)	(315)	(4,787)
Tax on ordinary activities		–	–	–	(102)	72	(30)	(6)
Return/(loss) on ordinary activities after taxation		103	(3,701)	(3,598)	288	(633)	(345)	(4,793)
Proposed dividend		–	–	–	–	–	–	(607)
Transfer to/(from) reserves		103	(3,701)	(3,598)	288	(633)	(345)	(5,400)
Earnings/(loss) per share	3	0.2p	(7.0)p	(6.8)p	0.5p	(1.2)p	(0.7)p	(9.0)p

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

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

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

Unaudited financial statements – continued

BALANCE SHEET

	Note	30 April 2003 £'000	30 April 2002 £'000	31 October 2002 £'000
Fixed assets				
Investments		39,913	45,839	42,054
Current assets				
Debtors		735	905	3,099
Cash at bank		1,332	7,053	1,320
		2,067	7,958	4,419
Creditors: amounts falling due within one year		(2,238)	(5,287)	(3,178)
Net current (liabilities)/assets		(171)	2,671	1,241
Creditors: amounts falling due in over one year				
Loan stock		(97)	(97)	(97)
Net assets		39,645	48,413	43,198
Capital and reserves				
Called up equity share capital		528	530	528
Special reserve	1	49,496	49,702	49,532
Share premium account	1	218	125	137
Capital reserve – realised	1	(2,312)	(1,617)	(2,140)
– unrealised	1	(8,426)	(650)	(4,897)
Revenue reserve	1	141	323	38
Total equity shareholders' funds		39,645	48,413	43,198
Net asset value per share		75.0p	91.3p	81.8p

SUMMARISED CASH FLOW STATEMENT

	6 months ended 30 April 2003 £'000	6 months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Net cash inflow from operating activities	(108)	4,984	926
Corporation tax paid	—	—	(281)
Net capital expenditure and financial investment	682	(1,080)	(2,314)
Dividends paid	(607)	(925)	(925)
Financing	45	127	(33)
Increase/(decrease) in cash for the period	12	3,106	(2,627)

Reconciliation of net cashflow to movement in net funds

Increase/(decrease) in cash for the period	12	3,106	(2,627)
Net funds at the start of the period	1,320	3,947	3,947
Net funds at the end of the period	1,332	7,053	1,320

Notes to the unaudited financial statements

1. MOVEMENT IN RESERVES

	Special reserve £'000	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
At 1 November 2002	49,532	137	(2,140)	(4,897)	38
Shares allotted under the dividend reinvestment scheme	—	81	—	—	—
Share buy back and cancellation	(36)	—	—	—	—
Net gain on realisation of investments	—	—	52	—	—
Net unrealised depreciation of investments	—	—	—	(3,502)	—
Transfer from unrealised reserve	—	—	27	(27)	—
Investment management fee charged to capital	—	—	(251)	—	—
Net revenue retained for the period	—	—	—	—	103
At 30 April 2003	49,496	218	(2,312)	(8,426)	141

- The financial information contained in this report has been prepared on the basis of the accounting policies set out in the 2002 Annual Report.
- The calculation of the revenue earnings and capital loss per share for the period is based respectively on the net revenue after tax of £103,000 and the net capital loss after tax of £3,701,000 divided by the weighted average number of shares in issue during the period of 52,750,906.
- The unaudited financial statements set out above do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- Copies of the unaudited interim results are expected to be sent to shareholders on 1 July 2003. Further copies can be obtained from the Company's registered office.

Shareholder information

The mid-market price of shares in Quester VCT 4 plc is reported daily in the Financial Times and appears under the heading “Investment Companies”. 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 the rules of the UK Listing Authority.

Any queries regarding your holding of Quester VCT 4 plc shares should be addressed to the Registrars.

DIRECTORS

RA Wright (Chairman)

R Barrow

APG Holmes

APM Lamb

JA Spooner

MANAGER

Quester Capital Management Limited

(regulated by the FSA)

COMPANY SECRETARY

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