



Quester VCT 4 plc

Interim statement  
for the six months ended  
30 April 2004



## Financial highlights

Per ordinary share (pence)	6 months to 30 April 2004	Year to 31 October 2003	6 months to 30 April 2003
<b>Capital values</b>			
Net asset value	72.4	77.2	75.0
Share price	82.5	82.5	82.5
<b>Return and dividends</b>			
Dividend	—	—	—
Cumulative dividend	2.9	2.9	2.9
<b>Total return*</b>	<b>75.3</b>	80.1	77.9

\*Net asset value plus cumulative dividend per share

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

- During the half-year further progress has been made towards completion of the initial investment programme. The opportunity has been taken to broaden the spread of investment stages represented within the portfolio by investing in a number of companies raising capital on AIM.
- Successful trade sales or IPOs of four venture capital investments have been achieved (either during the half-year or subsequently), with the sale of CDC Solutions Limited and Sterix Limited, the flotation of Amino Technologies plc on AIM and the well-publicised acquisition of On Demand Distribution Limited ("OD2") by the NASDAQ-quoted company Loudeye Corporation.
- Changes in certain unquoted investment valuations resulted in a decline in the net asset value of 4.8p per share over the half-year to 72.4p at 30 April 2004.
- Since 30 April 2004, however, realised and unrealised gains on the transactions involving Amino Technologies plc and the acquisition of OD2 by Loudeye Corporation are equivalent – on the basis of the relevant share prices as at 9 July 2004 – to 2.0p per share.
- The terms of the trade sales of CDC Solutions Limited and OD2 offer scope for further upside in the future, depending on entitlements under earn-out arrangements and, in the case of OD2, on the share price performance of the acquirer.

# Chairman's statement

## **INTRODUCTION**

During the six months ended 30 April 2004 further progress has been made towards completion of the initial phase of the Company's investment programme. The opportunity has also been taken to broaden the spread of investment stages represented within the portfolio by investing in a number of companies raising capital on the Alternative Investment Market (AIM).

We are pleased to be able to report that successful trade sales or IPOs of four venture capital investments have been achieved, either during the half year or subsequently.

## **INVESTMENT PROGRESS AND PORTFOLIO PERFORMANCE**

Eight new investments were completed during the period at an initial cost of £3.1 million. These included four investments in unquoted companies, Mesophotonics Limited, Amino Technologies plc, Digital Union Limited and HTC Healthcare Limited (all referred to in the last Annual Report as having been completed since the year-end) and a total of £818,000 invested in four AIM companies. Since the period end, the shares of Amino Technologies plc have been admitted to trading on AIM.

The percentage of the Company's assets at 30 April 2004 represented by unquoted venture capital investments is 46.2% (with further amounts reserved for follow-on investment) alongside 8.0% in companies whose shares are now traded on AIM.

Successful trade sales or IPOs of four venture capital investments have been achieved, either during the half-year or subsequently, with the sale of CDC Solutions Limited and Sterix Limited, the flotation of Amino Technologies plc ("Amino") on AIM and the well-publicised acquisition of On Demand Distribution Limited ("OD2") by the NASDAQ-quoted company Loudeye Corporation.

A realised gain has been recognised in the half-year to 30 April 2004 in respect of the sale of Sterix Limited, while the sale of CDC Solutions Limited has been accounted for at this stage on a no profit/no loss basis. The transactions involving Amino and OD2 have resulted in realised and unrealised gains for Quester VCT 4 since the end of the half-year.

In the cases of CDC Solutions Limited and OD2, the terms of the above-mentioned transactions offer scope for further upside in the future, depending on entitlements under earn-out arrangements and, in the case of OD2, on the share price performance of the acquirer Loudeye Corporation.

During the half year a number of key companies in Quester VCT 4's portfolio have been successful in raising new funding rounds. In certain cases, however, current conditions in the investment market have meant that the new round has been priced at a lower level than previously, thus resulting in a downward valuation movement. Provisions have also been made in a number of cases where business performance has fallen behind plan. The net effect of valuation changes has been a reduction in the carrying value of the ongoing portfolio of venture capital investments of £2.7 million.

## **NET ASSETS, REVENUE AND DIVIDENDS**

In revenue account terms, the statement of total return for the six months ended 30 April 2004 shows a deficiency of income over management fees and other expenses charged to revenue of £336,000 (0.6p per share).

The reduction in the level of interest income in the half-year results from the switch of assets out of bonds into cash in order to comply with the VCT rules.

Valuation changes in respect of unquoted venture capital investments, other capital account items (including the realised gain on the sale of Sterix Limited) and expenses charged to capital, amounted to a net loss of £2,216,000.

The overall result amounted to a decline in the net asset value of 4.8p per share over the half-year to 72.4p at 30 April 2004. The directors are not declaring an interim dividend.

## **OUTLOOK**

It should be appreciated that the unquoted investments held by the Company are, in most cases, still at an early stage and will take time to mature.

It has been encouraging to see the re-emergence of M&A activity in the unquoted company sector and the revival of new issue activity on AIM. At the date of this report, the strong early-stage weighting of the portfolio is beginning to be balanced by a number of investments in AIM companies, deferred consideration receivable from quoted acquirers and a holding of NASDAQ-quoted stock.

Realised and unrealised gains on transactions achieved since 30 April 2004 are equivalent – on the basis of the relevant share prices as at 9 July 2004 – to 2.0p per share. The terms of certain of the trade sale transactions offer scope for further upside in the future, depending on entitlements under earn-out arrangements and, in one case, also on the share price performance of the acquirer.

The Board considers that the ongoing portfolio of unquoted and AIM investments will provide good opportunities for future capital growth.

Robert Wright  
Chairman  
13 July 2004

# Investment manager's report

## OVERVIEW

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

With the revival of new issue activity in the Alternative Investment Market (AIM), the opportunity has also been taken to broaden the spread of investment stages represented within the portfolio by investing in a number of companies raising capital on that market.

Investments completed during the half year and the transactions detailed below brought the total of Quester VCT 4's venture capital investments at 30 April 2004 to £26.6 million at cost in 35 portfolio companies, including 29 unquoted companies and 6 companies whose shares are now traded on AIM. This represents a diversified portfolio of companies operating in a wide range of markets with high growth potential.

An encouraging development in recent months has been the re-emergence of M&A activity in the unquoted company sector, reflected in the case of Quester VCT 4 by the trade sales and IPOs of four investments as detailed below.

## PROGRESS WITH VENTURE CAPITAL INVESTMENT

During the six months ended 30 April 2004, eight new investments were completed at an initial cost of £3.1 million. These included the four investments in unquoted companies referred to in the last Annual Report as having been completed since the year end: two in the electronics sector, **Mesophotonics Limited** (£893,000) and **Amino Technologies plc** (£357,000); one in software, **Digital Union Limited** (£536,000); and one in consumer services, **HTC Healthcare Limited** (£536,000). Since the half-year end, the shares of Amino Technologies plc have been admitted to trading on AIM and part of the holding has been sold, realising a gain of £228,000.

In pursuit of the Company's strategy to invest in attractive companies raising capital on AIM, a total of £818,000 has been invested in four companies covering a range of different sectors: **Offshore Hydrocarbon Mapping plc**, **Polaron plc**, **Public Recruitment Group plc** and **Quadnetics plc**.

During the half year £1.8 million was invested in 10 of the existing portfolio companies, either as further tranches of originally agreed commitment or as follow-on investment. The follow-on investments completed during this period included additional commitments to **Cyclacel Limited** (£500,000), **Lorantis Holdings Limited** (£650,000) and **Teraview Limited** (£125,000).

## REALISATION OF VENTURE CAPITAL INVESTMENTS

We are pleased to be able to report that successful trade sales or IPOs of four venture capital investments have been achieved, during the half-year to 30 April 2004 and subsequently:

- a) the software company **CDC Solutions Limited** (“CDC”) was sold in December 2003 to Information Holdings Inc., a US-based information services group quoted on the New York Stock Exchange and which is the parent company of Liquent, Inc., hitherto CDC’s major competitor. The CDC board and Quester considered that CDC shareholders would ultimately benefit from a merger of the two companies and their improved prospects for growth as a combined business. Quester VCT 4’s investment was sold for cash and deferred guaranteed cash equivalents to repay a substantial part of the original £1.0 million cost. Depending upon the future performance of the combined business over the coming three years, a good uplift on cost may ultimately be achieved. At 30 April 2004, this transaction has been reflected in the accounts on a no profit/no loss basis.
- b) the biopharmaceutical company **Sterix Limited** was sold in February 2004 to the European pharmaceutical group Ipsen, Quester VCT 4’s investment realising immediate cash proceeds of £954,000 and generating a gain of £388,000 on cost of £566,000 (with further deferred proceeds of £100,000 being contingently receivable).
- c) since the end of the half-year, in connection with the admission of the shares of **Amino Technologies plc** to trading on AIM, Quester VCT 4 has sold 36% of its holding, realising proceeds of £357,000 and retaining a holding with a value – based on the share price on AIM as at 9 July 2004 – of £796,000. This investment has accordingly produced realised and unrealised gains at this stage of £795,000 (equivalent to 1.5p per share).
- d) most recently, **On Demand Distribution Limited** (“OD2”), which has successfully developed as the largest digital music service provider in Europe, has been acquired by the NASDAQ-quoted company **Loudeye Corporation** (“Loudeye”). The combination of the two businesses creates the largest business-to-business digital media provider in the world with the largest licensed digital music catalogue in the industry. For Quester VCT 4, the initial consideration received in the form of Loudeye shares – based on the price on NASDAQ as at 9 July 2004 – and the accounting value of the deferred consideration receivable together amount to £842,000, producing realised and unrealised gains at this stage of £274,000 (equivalent to 0.5p per share).

The ultimate return to Quester VCT 4 will depend upon movements in Loudeye’s share price, foreign exchange movements and the future performance of the business itself (under an earn-out entitlement).

## Investment manager's report – continued

### A WELL BALANCED PORTFOLIO

The portfolio so far established is balanced by sector and well spread. A summary of the sectors covered by the portfolio at 30 April 2004 is provided in the table below:

Sector	Percentage of venture capital portfolio at valuation %	Valuation at 30 April 2004 £'000	Number of investments
Software	28.5	5,869	8
Healthcare & life sciences	26.7	5,499	8
Communications	11.9	2,439	5
Industrial products & services	9.6	1,983	6
Semiconductors	8.3	1,716	2
Electronics	6.5	1,343	3
Internet	5.9	1,210	2
Consumer goods & services	2.6	536	1
	100.0	20,595	35

The Company holds substantial reserves – in the form of listed equities, short-dated bonds and cash – for follow-on investment in the existing portfolio, provided the companies concerned continue to make satisfactory progress.

### VALUATION OF THE VENTURE CAPITAL PORTFOLIO

The venture capital investments have been valued in line with the Company's accounting policies which are based on the valuation guidelines issued by the British Venture Capital Association (BVCA) in June 2003.

It was encouraging that **Anadigm Limited** ("Anadigm") closed a \$15 million funding round to which Quester VCT 4 has contributed £278,000 (including a final tranche of £133,000 invested after 30 April 2004). Anadigm provides breakthrough technology to the electronics market, its devices enabling electronic system developers to gain significant improvements in design times, control and flexibility in the production of analogue circuits. The market for such products is expected to be in excess of \$500 million, with Anadigm having the potential to dominate the market with its technology. Current conditions in the private equity market and the stage of development reached by the company caused the recent round to be priced at a lower level than previous rounds, necessitating a downward adjustment of £914,000 in the carrying value of this investment. Despite this, we believe that Anadigm offers strong prospects of achieving an ultimately attractive return on the investment cost.

**Teraview Limited** closed a £6 million funding round at a price representing an uplift to the price at which Quester VCT 4 originally invested, resulting in a valuation uplift of £108,000. The company, which is focused on imaging and diagnostic technology, is now implementing its business plan and initial customer contacts are encouraging.

The performance of **First Index Group Limited**, which has been pursuing a strategy to become a leading business-to-business marketplace for industrial custom-manufactured parts and assemblies, has proved disappointing. Full provision has now been made against cost of this investment.

Provisions totalling a further £833,000 have been made against four other unquoted investments, where business performance has fallen behind plan or a valuation change has been necessary to reflect current conditions in the market for venture capital finance.

The net effect of valuation changes during the half-year has been a reduction in the carrying value of the ongoing portfolio of venture capital investments of £2.7 million.

## **LISTED EQUITY AND BOND PORTFOLIOS**

For the first three years of the Company, funds awaiting investment in venture capital opportunities were largely invested in short dated bonds. Immediately prior to 31 October 2003, the bulk of this portfolio was switched into cash in order to comply with the VCT rules. At the half year the Company retained bonds to a value of £1.5 million, as well as a portfolio of listed equities of £5.6 million.

## **CONCLUSION**

As at the date of this report, the initial investment phase of the Company is largely complete with a portfolio of 35 venture capital investments. The total number of venture capital investments will be kept under review and further investments will be made if appropriate.

While a number of the companies in which Quester VCT 4 has invested have not met their objectives during the period, it is pleasing to see a significant evolution of the portfolio with a number of trade sales and IPOs having been achieved which will lead in due course to full realisation of these investments. Other portfolio companies continue to show the potential to fulfil expectations. Overall, we are confident that the portfolio has substantial upside potential.

Quester Capital Management Limited  
Manager  
13 July 2004

## Fund summary

### AS AT 30 APRIL 2004

	Cost £'000	Valuation £'000	% of fund by value
<b>Ten largest venture capital investments by value</b>			
AIT Group plc (investment traded on AIM)	1,130	1,870	4.9%
Arithmatica Limited	1,486	1,486	3.9%
Azea Networks Inc.	1,332	1,332	3.5%
Lorantis Holdings Limited	1,400	1,025	2.7%
Workshare Limited	1,000	1,000	2.6%
Footfall Limited	1,000	1,000	2.6%
Cyclacel Limited	1,000	1,000	2.6%
Oxxon Therapeutics Limited	987	987	2.6%
Nomad Software Limited	1,077	977	2.6%
Mesophotonics Limited	893	893	2.4%
	11,305	11,570	30.4%
<b>Other venture capital investments</b>			
Unquoted investments	14,242	7,855	20.7%
AIM investments*	1,090	1,170	3.1%
<b>Total venture capital investments</b>	<b>26,637</b>	<b>20,595</b>	<b>54.2%</b>
<b>Listed fixed interest investments</b>	<b>1,466</b>	<b>1,498</b>	<b>3.9%</b>
<b>Listed equity investments</b>	<b>5,495</b>	<b>5,571</b>	<b>14.7%</b>
<b>Total investments</b>	<b>33,598</b>	<b>27,664</b>	<b>72.8%</b>
<b>Cash and other net assets</b>	<b>10,318</b>	<b>10,318</b>	<b>27.2%</b>
<b>Net assets</b>	<b>43,916</b>	<b>37,982</b>	<b>100.0%</b>

\*including Amino Technologies plc, the shares of which have been admitted to trading on AIM since 30 April 2004.

## Unaudited financial statements

### STATEMENT OF TOTAL RETURN

Incorporating the revenue account of the Company

	Note	6 months ended 30 April 2004			6 months ended 30 April 2003			Year ended 31 October 2003
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Losses on investments		–	(1,962)	(1,962)	–	(3,450)	(3,450)	(2,056)
Income		145	–	145	563	–	563	1,016
Investment management fee		(254)	(254)	(508)	(251)	(251)	(502)	(1,002)
Other expenses		(227)	–	(227)	(209)	–	(209)	(436)
<b>(Loss)/return on ordinary activities before taxation</b>		<b>(336)</b>	<b>(2,216)</b>	<b>(2,552)</b>	103	(3,701)	(3,598)	(2,478)
Tax on ordinary activities		–	–	–	–	–	–	4
<b>(Loss)/return on ordinary activities after taxation</b>		<b>(336)</b>	<b>(2,216)</b>	<b>(2,552)</b>	103	(3,701)	(3,598)	(2,474)
Proposed dividend		–	–	–	–	–	–	–
<b>Transfer (from)/to reserves</b>		<b>(336)</b>	<b>(2,216)</b>	<b>(2,552)</b>	103	(3,701)	(3,598)	(2,474)
(Loss)/earnings per share	3	<b>(0.6)p</b>	<b>(4.2)p</b>	<b>(4.8)p</b>	0.2p	(7.0)p	(6.8)p	(4.6)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 2004 £'000	31 October 2003 £'000	30 April 2003 £'000
<b>Fixed assets</b>				
Investments		27,664	26,687	39,913
<b>Current assets</b>				
Debtors		720	609	735
Cash at bank		9,954	13,809	1,332
		10,674	14,418	2,067
<b>Creditors (amounts falling due within one year)</b>		<b>(256)</b>	(266)	(2,238)
<b>Net current assets/(liabilities)</b>		<b>10,418</b>	14,152	(171)
<b>Creditors (amounts falling due after more than one year)</b>		<b>(100)</b>	(100)	(97)
<b>Net assets</b>		<b>37,982</b>	40,739	39,645
<b>Capital and reserves</b>				
Called-up equity share capital		525	528	528
Share premium account	1	218	218	218
Special reserve	1	44,099	49,466	49,496
Capital reserve – realised	1	(713)	(3,993)	(2,312)
– unrealised	1	(5,933)	(5,602)	(8,426)
Revenue reserve	1	(214)	122	141
<b>Total equity shareholders' funds</b>		<b>37,982</b>	40,739	39,645
<b>Net asset value per share</b>	3	<b>72.4p</b>	77.2p	75.0p

## SUMMARISED CASH FLOW STATEMENT

	<b>6 months ended 30 April 2004 £'000</b>	<b>Year ended 31 October 2003 £'000</b>	<b>6 months ended 30 April 2003 £'000</b>
Net cash (outflow)/inflow from operating activities	<b>(695)</b>	327	(108)
Corporation tax paid	–	(23)	–
Net capital expenditure and financial investment	<b>(2,956)</b>	12,777	682
Dividends paid	–	(607)	(607)
Financing	<b>(204)</b>	15	45
(Decrease)/increase in cash for the period	<b>(3,855)</b>	12,489	12

### Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash for the period	<b>(3,855)</b>	12,489	12
Net funds at the start of the period	<b>13,809</b>	1,320	1,320
Net funds at the end of the period	<b>9,954</b>	13,809	1,332

## Notes to the unaudited financial statements

### I. MOVEMENT IN RESERVES

	Share premium account £'000	Special reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
At 1 November 2003	218	49,466	(3,993)	(5,602)	122
Share buy back and cancellation	—	(201)	—	—	—
Net gain on realisation of investments	—	—	499	—	—
Write off of investments	—	—	(22)	—	—
Net unrealised depreciation	—	—	—	—	—
– venture capital investments	—	—	—	(2,668)	—
– listed investments	—	—	—	228	—
Transfer from unrealised reserve	—	—	(2,109)	2,109	—
Transfer from special reserve	—	(5,166)	5,166	—	—
Investment management fee charged to capital	—	—	(254)	—	—
Net loss for the period	—	—	—	—	(336)
At 30 April 2004	218	44,099	(713)	(5,933)	(214)

A transfer has been made from the special reserve, created following the reduction of share premium account, representing the total of realised losses on investments incurred to 30 April 2004.

- The financial information contained in this report has been prepared on the basis of the accounting policies set out in the 2003 Annual Report.
- The calculation of the revenue loss and capital loss per share for the period is based respectively on the net revenue loss after tax of £336,000 and the net capital loss after tax of £2,216,000 divided by the weighted average number of shares in issue during the period of 52,654,371. The net asset value per share as at 30 April 2004 is based on the net assets of £37,982,000 divided by the 52,483,965 ordinary shares in issue at that date.
- 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 16 July 2004. Further copies can be obtained from the Company's registered office.





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