



Quester VCT 4 PLC

INTERIM REPORT 2005

Quester VCT 4 plc is a venture capital trust established under the provisions introduced by the Finance Act 1995.

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

Dividends paid by Quester VCT 4 plc, as an approved venture capital trust, are tax free to eligible shareholders. This applies to dividends derived both from income and from capital profits. This substantially enhances the effective returns to eligible subscribers for shares or purchasers of shares on the London Stock Exchange.

Eligible shareholders are reminded that a sale of their shareholding in Quester VCT 4 plc may give rise to a loss of any capital gains tax deferral granted at the time of their original subscription.



FINANCIAL HIGHLIGHTS

Per ordinary share (pence)	30 April 2005	31 October 2004	30 April 2004
Capital values			
Net asset value	64.4	67.7	72.4
Share price	60.0	62.0	82.5
Return and dividends			
Dividend	1.0	–	–
Cumulative dividend	3.9	2.9	2.9
Total return*	68.3	70.6	75.3
*Net asset value plus cumulative dividend per share			

HIGHLIGHTS FROM THE CHAIRMAN'S STATEMENT AND INVESTMENT MANAGER'S REPORT

- Most of the companies in Quester VCT 4's portfolio are still at a relatively early stage of development. The underlying scientific and business development of those companies involved in technology-related opportunities has been generally positive.
- While the initial investment phase is regarded as essentially complete, the total number of venture capital investments will be kept under review and further investments will be made if appropriate.
- Overall, we consider that the portfolio is capable of recovering the loss of value so far suffered and then delivering attractive returns to shareholders in the longer term.
- A dividend of 1p per share was paid on 1 April 2005.

CHAIRMAN'S STATEMENT

INTRODUCTION

Following completion of the Company's initial investment phase, the main focus of activity has been on the development of long-term value in the venture capital portfolio.

Members of the Quester investment team have been much engaged during the period with the key companies in the portfolio, helping in the development of business strategy and in the building of management teams, considering plans for the raising of further rounds of finance, where this is justified by business progress, and in a number of cases looking ahead at the planning of an initial public offering (IPO) or merger and acquisition (M&A) activity.

PROGRESS OF THE PORTFOLIO

Midway through the fifth year of Quester VCT 4, the portfolio still contains a relatively high proportion of early stage businesses. The portfolio suffered one business failure during the period, which contributed largely to the amount recorded for the write-off of investments. Generally, however, for those companies involved in technology-related opportunities, the underlying scientific and business development has been positive.

The Board believes that, across the portfolio as a whole, progress is satisfactory at this stage in Quester VCT 4's development.

NET ASSETS, REVENUE AND DIVIDENDS

	£'000	Pence per share
Net asset value at 31 October 2004	35,240	67.7
Income	211	0.4
Investment management fee and other expenses	(620)	(1.2)
Realised net gains on disposal of investments	125	0.2
Write-off of investments (net of amounts recovered in respect of investments previously written-off)	(580)	(1.1)
Net unrealised loss on revaluation of investments	(356)	(0.7)
Share buy-backs	(463)	0.1
Issue of shares under the dividend reinvestment scheme	67	–
Dividends paid	(520)	(1.0)
Net asset value at 30 April 2005	33,104	64.4

As foreshadowed in the Annual Report for the year ended 31 October 2004, the Company has revoked its investment company status to enable a dividend to be paid in respect of the realised gains achieved on venture capital investments in that year. This has been paid as an interim dividend of 1.0p per share in respect of the current year ending 31 October 2005.

CHAIRMAN'S STATEMENT (CONTINUED)

After payment of the interim dividend the net asset value per share was reduced from 67.7p at 31 October 2004 to 64.4p per share at 30 April 2005.

In consequence of the revocation of investment company status, Quester VCT 4's results are now presented in the form of a profit and loss account and statement of total recognised gains and losses rather than in a three-column statement of total return.

The profit and loss account for the half-year shows a net loss after tax of £864,000 (with no tax being payable), equivalent to 1.7p per share. This includes, in addition to income and expenses, the realised net gains on disposal of investments and the write-off of investments. The net unrealised loss on revaluation of investments, amounting to £356,000, is included in the statement of total recognised gains and losses.

OUTLOOK

As has previously been stated, Quester VCT 4's venture capital investments are, in most cases, still at an early stage and will take time to mature.

The Board considers that, given the underlying progress made to date, the portfolio is capable of recovering the loss of value so far suffered and then delivering attractive returns to shareholders in the longer term.

Robert Wright

Chairman

12 July 2005

INVESTMENT MANAGER'S REPORT

PROGRESS WITH VENTURE CAPITAL INVESTMENT

We indicated in the last Annual Report that Quester VCT 4's initial investment phase was essentially complete at 31 October 2004. Accordingly, no new venture capital investments were made during the six months to 30 April 2005, the focus of attention during this period being on the building of value in the existing portfolio companies.

An additional £1.6 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 included additional commitments to **Advanced Valve Technologies Limited** (£146,000), **Antenova Limited** (£255,000), **Avidex Limited** (£211,000), **Azea Networks, Inc.** (£432,000) and **Oxford Immunotec Limited** (£188,000).

VENTURE CAPITAL PORTFOLIO DEVELOPMENTS

During the six months to 30 April 2005, the Company realised proceeds of £324,000 from the sale of part of the holding in the NASDAQ-quoted company **Loudeye Corp.**, generating a gain of £145,000 over the comparable valuation at 31 October 2004. Further sales have been made since that date, but given the timing of release to Quester VCT 4 of certain of its entitlements under the sale agreement, it will be some time before full realisation is achieved.

It is disappointing to report one company failure during the year. The Quester team had been closely monitoring the progress of **Digital Union UK Limited**, with a modest amount of additional capital being advanced to give management time to achieve certain business objectives: in the event, these were not achieved and the decision was taken not to provide further funding (write-off of £679,000). Two further investments, previously carried at only modest residual valuations, have also been treated as realised. These transactions have resulted in a net write-off of £580,000 (after offsetting amounts recovered in respect of certain previous write-offs): there are now 32 active venture capital investments in the portfolio.

While most of the companies are still at a relatively early stage of development, for those involved in technology-related opportunities the underlying scientific and business development has been generally positive. A number of companies are progressing towards the raising of new rounds of finance, with new participants expected to join the syndicate, and in a number of cases an uplift in valuation may be expected on successful completion of the new round. It is too soon to predict the achievement of an early exit from any of the existing investments, but in a number of cases business progress has resulted in increased focus on exit strategy including consideration of the opportunities for IPO in due course.

VALUATION OF THE VENTURE CAPITAL PORTFOLIO

The portfolio of quoted venture capital investments showed a net appreciation of £12,000 (significant movements within this total being an appreciation in value of **Allergy Therapeutics plc** and a decline in **Polaron plc**).

INVESTMENT MANAGER'S REPORT (CONTINUED)

Among the unquoted venture capital investments, valuations generally have shown greater stability than in previous periods. As a result of slower than expected development of the respective businesses, further provisions have been made against the investments in **Advanced Valve Technologies Limited** (£365,000) and **HTC Healthcare Group plc** (£289,000). On the positive side, encouraging recent business progress has justified the revaluation of the holdings in **Nexgent Limited** (upvaluation of £272,000) and **Workshare Limited** (upvaluation of £100,000). Including other minor adjustments, there is a net reduction in valuation of unquoted investments (excluding Opsys Management Limited) of £357,000.

In consequence of the share price performance of the underlying holding in the NASDAQ-quoted company **Cambridge Display Technologies, Inc.**, a downward valuation adjustment has been made in respect of Opsys Management Limited (£216,000) and, for the sake of prudence, a provision of £122,000 has been made against the valuation of the residual entitlement under the agreement for the trade sale of **CDC Solutions Limited**.

LISTED EQUITY AND BOND PORTFOLIOS AND CASH

At 30 April 2005 the Company held a portfolio of listed equities valued at £6.4 million. The portfolio produced a return over the six months of £309,000 (losses taken £19,000; unrealised portfolio appreciation £327,000).

The remaining holdings in the Company's bond portfolio were realised during the period: reserves for ongoing investment in the venture capital portfolio are represented in part by a £3.7 million holding in a global treasury fund. Cash balances included £3.1 million held in non interest-bearing cash accounts, in order to comply with the "70% qualifying investment test" under VCT legislation while enabling the Company to maintain an appropriate level of reserves for follow-on investment in existing portfolio companies. We expect that the non interest-bearing cash balance will be significantly reduced by the end of the current year.

CONCLUSION

While Quester VCT 4's initial investment phase is regarded as essentially complete, the total number of venture capital investments will be kept under review, particularly as realisations are achieved, and further investments will be made if appropriate.

Although a number of companies in which Quester VCT 4 has invested have not met their objectives during the period, more generally the progress of the portfolio has been satisfactory. Overall, we believe that the portfolio offers attractive upside potential from its current value.

Quester Capital Management Limited

Manager

12 July 2005

FUND SUMMARY AS AT 30 APRIL 2005

	Industry sector	Original cost £'000	Valuation £'000	Equity % held	% of fund by value
Quoted venture capital investments					
Allergy Therapeutics plc	Healthcare & life sciences	500	771	1.1%	2.3%
Loudeye Corp.	Internet	421	493	0.8%	1.5%
Polaron plc	Industrial products & services	250	172	1.2%	0.5%
Portrait Software plc*	Software	1,130	811	5.8%	2.5%
Public Recruitment Group plc	Industrial products & services	250	245	0.8%	0.7%
Quadnetics Group plc	Electronics	143	135	0.5%	0.4%
Total quoted venture capital investments		2,694	2,627		7.9%
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	1,208	511	26.4%	1.5%
Anadigm Limited	Semiconductors	1,235	223	2.8%	0.7%
Antenova Limited	Communications	1,254	1,005	5.4%	3.0%
Anthropics Technology Limited	Communications	1,070	70	7.0%	0.2%
Argelcom Limited	Software	89	89	6.2%	0.3%
Arithmatica Limited	Semiconductors	1,486	429	13.7%	1.3%
Avidex Limited	Healthcare & life sciences	1,013	1,013	2.7%	3.1%
Azea Networks, Inc.	Communications	1,764	1,764	7.5%	5.3%
Celona Technologies Limited	Software	321	321	9.0%	1.0%
Celoxica Holdings Limited	Software	1,148	648	2.8%	2.0%
Cyclacel Group plc	Healthcare & life sciences	1,000	1,000	1.4%	3.0%
De Novo Pharmaceuticals Limited	Healthcare & life sciences	803	176	3.0%	0.5%
Elaterral Holdings Limited	Software	1,155	155	15.5%	0.5%
Footfall Limited	Industrial products & services	1,000	1,000	7.7%	3.0%
HTC Healthcare Group plc	Consumer goods & services	564	275	8.7%	0.8%
Lorantis Holdings Limited	Healthcare & life sciences	1,400	1,025	2.5%	3.1%
Mesophotonics Limited	Electronics	893	670	6.0%	2.0%
Nexagent Limited	Software	496	417	1.7%	1.3%
Nomad Software Limited	Software	1,211	651	7.5%	2.0%
Opsys Management Limited	Electronics	1,038	72	–	0.2%
Oxford Immunotec Limited	Healthcare & life sciences	813	813	9.3%	2.5%
Oxxon Therapeutics Holdings, Inc.	Healthcare & life sciences	987	987	3.5%	3.0%
Sift Group Limited	Internet	875	656	4.5%	2.0%
TeraView Limited	Healthcare & life sciences	625	733	4.9%	2.2%
Workshare Limited	Software	1,000	1,100	6.6%	3.3%
Xention Discovery Limited	Healthcare & life sciences	500	500	5.8%	1.5%
Total unquoted venture capital investments		24,948	16,303		49.3%
Total venture capital investments		27,642	18,930		57.2%
Listed equity investments		5,839	6,371		19.2%
Total investments		33,481	25,301		76.4%
Cash and other net assets		7,803	7,803		23.6%
Net assets		41,284	33,104		100.0%

*formerly AIT Group plc

UNAUDITED FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

		6 months ended 30 April 2005	6 months ended 30 April 2004	Year ended 31 October 2004
	Notes	£'000	£'000	£'000
Net losses on investments		(455)	478	554
Income		211	145	267
Investment management fee		(429)	(508)	(972)
Other expenses		(191)	(227)	(358)
Loss on ordinary activities before tax		(864)	(112)	(509)
Tax on ordinary activities		-	-	-
Loss on ordinary activities after tax		(864)	(112)	(509)
Dividends paid and declared	3	(520)	-	-
Transfer from reserves		(1,384)	(112)	(509)
Loss per share	6	(1.7)p	(0.2)p	(1.0)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		6 months ended 30 April 2005	6 months ended 30 April 2004	Year ended 31 October 2004
		£'000	£'000	£'000
Loss for the period		(864)	(112)	(509)
Unrealised loss on revaluation of investments		(356)	(2,440)	(4,500)
Total recognised losses		(1,220)	(2,552)	(5,009)

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.

BALANCE SHEET

	Notes	30 April 2005 £'000	30 April 2004 £'000	31 October 2004 £'000
Fixed assets				
Investments		25,301	27,664	25,814
Current assets				
Debtors		362	720	578
Cash at bank		7,943	9,954	9,185
		8,305	10,674	9,763
Creditors (amounts falling due within one year)		(402)	(256)	(237)
Net current assets		7,903	10,418	9,526
Creditors (amounts falling due in over one year)		(100)	(100)	(100)
Net assets		33,104	37,982	35,240
Capital and reserves				
Called-up equity share capital		514	525	520
Share premium account	1	284	218	218
Special reserve	1	35,820	44,099	41,975
Revaluation reserve	1	(3,983)	(5,933)	(7,637)
Profit and loss account	1	469	(927)	164
Total equity shareholders' funds		33,104	37,982	35,240
Net asset value per share		64.4p	72.4p	67.7p

UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

SUMMARISED CASH FLOW STATEMENT

	6 months ended 30 April 2005 £'000	6 months ended 30 April 2004 £'000	Year ended 31 October 2004 £'000
Net cash outflow from operating activities	(147)	(695)	(1,030)
Net capital expenditure and financial investment	(179)	(2,956)	(3,104)
Equity dividends paid	(520)	–	–
Buy-back of ordinary shares	(463)	(204)	(490)
Issue of shares under the dividend reinvestment scheme	67	–	–
Decrease in cash for the period	(1,242)	(3,855)	(4,624)

Reconciliation of net cash flow to movement in net funds

Decrease in cash for the period	(1,242)	(3,855)	(4,624)
Net cash at the start of the period	9,185	13,809	13,809
Net cash at the end of the period	7,943	9,954	9,185

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1 MOVEMENT IN RESERVES

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 November 2004	218	41,975	(7,637)	164
Share buy-back and cancellation	–	(456)	–	–
Shares issued under the terms of the dividend reinvestment scheme	66	–	–	–
Net unrealised depreciation of investments	–	–	(356)	–
Transfer from unrealised reserve	–	–	4,010	(4,010)
Transfer from special reserve	–	(5,699)	–	5,699
Dividends paid	–	–	–	(520)
Net loss for the period	–	–	–	(864)
At 30 April 2005	284	35,820	(3,983)	469

2 The financial information contained in this report has been prepared on the basis of the accounting policies set out in the 2004 Annual Report.

3 On 21 January 2005 the directors resolved to pay an interim dividend of 1p per share payable on 1 April 2005.

As a result of the Directors' decision to enable dividends from capital profits to be paid to shareholders the Company applied for its investment company status, as defined under Section 266 of the Companies Act 1985, to be revoked on 21 January 2005.

Consequently, the financial statements have been prepared to include a statutory profit and loss account and a statement of total recognised gains and losses in accordance with Schedule 4 of Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance). These statements differ from the Statement of Total Return presented in prior periods as follows:

- Profit/loss on realisation of investments and permanent diminutions in value of investments are now included in the profit and loss account.
- Unrealised gains and losses on investments are included in the statement of total recognised gains and losses.
- The full amount of the investment management fee is charged to the profit and loss account.

The effect of the restatement has been to decrease the profit on ordinary activities after taxation, equivalent to the revenue return on ordinary activities after taxation under the previous presentation, by £670,000 in respect of the current period and by £2,216,000 in respect of the comparative period to 30 April 2004 reflecting the impact of the realisation of investments and investment management fees charged to the profit and loss accounts.

- In the balance sheet, the opening revenue reserve, which was showing a loss of £455,000, and the opening realised capital reserve of £619,000 have been combined into the profit and loss account resulting in an opening balance of £164,000. The revaluation reserve records revaluation amounts previously included in the unrealised capital reserve, except for any permanent diminutions in value which have been passed through the profit and loss account.
- A transfer of £5,699,000 has been made from the Special Reserve to the Profit and Loss account. This transfer was made to offset realised losses on investments arising during the six months to 30 April 2005.
- The calculation of the loss per share for the period is based on the net loss after tax of £864,000 divided by the weighted average number of shares in issue during the period of 51,851,842.
- The net asset value per share as at 30 April 2005 is based on net assets of £33,104,000 divided by the 51,385,419 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 14 July 2005. 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 have been released. 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 UK Listing Authority rules.

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

INVESTOR RELATIONS

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

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

DIRECTORS

RA Wright (Chairman)

APG Holmes

APM Lamb

JA Spooner

R Barrow (resigned 22 April 2005)

REGISTRARS

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

Tel: 0870 162 3100

Fax: 020 8639 2342

MANAGER

Quester Capital Management Limited

(Authorised and regulated by the Financial Services Authority)

COMPANY SECRETARY

MG Williams



Quester

29 Queen Anne's Gate

London SW1H 9BU

Tel +44 (0) 20 7222 5472

Fax +44 (0) 20 7222 5250

email: contact@quester.co.uk

www.quester.co.uk

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authorised and regulated by the Financial Services Authority