



Quester VCT 4 PLC

Annual Report 2005

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

The objective of Quester VCT 4 plc is to provide shareholders with an attractive income and capital return by investing in a broadly spread portfolio consisting largely of unquoted investments with strong growth prospects and also including quoted equities and fixed interest securities.

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 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 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 4 plc may give rise to a loss of any capital gains tax deferral granted at the time of their original subscription.

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Financial highlights

As at 31 October 2005

Per ordinary share (pence)	2005	2004	2003
Capital values			
Net asset value	61.3	67.7	77.2
Share price	60.0	62.0	82.5
Return and dividends			
Dividend	1.0	–	–
Cumulative dividend	3.9	2.9	2.9
Total return*	65.2	70.6	80.1

*Net asset value plus cumulative dividend

The directors have resolved to pay an interim dividend of 1p per share in respect of the year ending 31 October 2006, payable on 1 March 2006. This will increase cumulative dividends to 4.9p per share.

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 85.2p per share as at 31 October 2005.

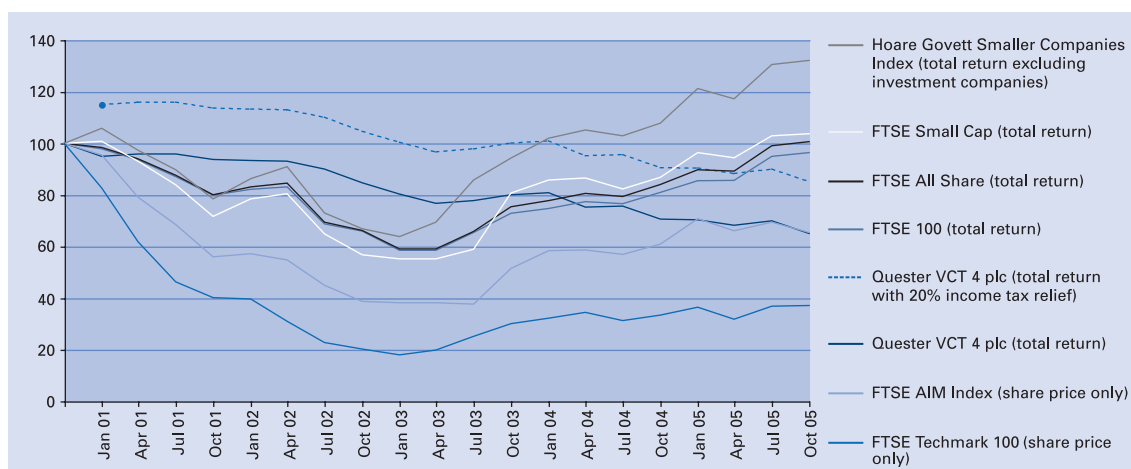
Composition of the Fund by Value

	%
Quoted and unquoted venture capital investments	63.6
Listed equity investments**	18.6
Cash and other net assets**	17.8
	100.0

**For potential future venture capital investment

Comparative Performance

The comparative performance of Quester VCT 4 plc is shown on the graph, in comparison with a range of other indices.



Chairman's statement

Overview

Quester, the Manager of Quester VCT 4, is one of a small number of venture capital houses that specialise in high growth early stage venture capital opportunities. These opportunities are largely found in two areas – information and communication technologies and healthcare and life sciences – market sectors offering investors considerable potential. It is also an area dominated to a significant degree by institutional investors, who are used to taking a long term view of up to 10 years.

It would be normal to expect net assets to fall in the early years in a fund of this type, as losses and running costs are incurred, before rising when the more successful investments begin to increase in value. This traditional “curve” has been exaggerated by the difficult market conditions in the technology area since the start of the fund in January 2001.

The current climate is now somewhat more favourable for early stage technology investment. Pricing is more realistic and M&A activity is at a higher level than we have seen for a number of years. At the same time, we are entering the fund's second phase where we can normally expect some of the companies in the portfolio to begin to show their worth. The next few years will be most important, as this is when a maturing portfolio should deliver its potential returns.

Net assets, revenue and dividends

Net assets have reduced by £4.2million and stand at £31.0million at 31 October 2005. The changes underlying the movement in net assets are as follows:

	£'000	Pence per share
Net asset value at 31 October 2004	35,240	67.7
Income	437	0.9
Operating expenses	(1,176)	(2.3)
Realised loss on investments	(404)	(0.8)
Unrealised loss on revaluation of investments	(1,737)	(3.4)
Dividend paid	(521)	(1.0)
Dividend reinvestment scheme	68	–
Share buy-backs	(915)	0.2
Net asset value at 31 October 2005	30,992	61.3

Progress of the portfolio

There has been some good, positive underlying progress made by a number of companies in the venture capital portfolio in what has been a particularly active year. Some of these companies, which have significant potential, are at a critical point in their development in terms of proving their science or getting their products into the market.

We are seeing an increased level of M&A activity within the portfolio. It is good to be able to report the sale of Footfall Limited after the year end, which generated cash proceeds of £3.0million and a profit of £2.0million. This gain, which is not included in the results for the period to 31 October 2005, is equivalent to approximately 4p per share or a 6.5% increase in net asset value.

It has also been a very active period on the investment side; £4.9million has been invested in 17 existing companies and four new investments have been made in companies with good potential. We believe that current prices offer the prospect of attractive returns.

Dividends and dividend reinvestment scheme

An interim dividend of 1p per share was paid on 1 April 2005. This was paid from realised gains that arose from the venture capital portfolio, principally the sale of Sterix Limited.

The sale of Footfall Limited following the year end has generated a sizeable gain for the Company. The Board has therefore resolved to distribute part of this gain through an interim dividend of 1p per share, at a cost of approximately £500,000, payable on 1 March 2006.

We have withdrawn the Company's dividend reinvestment scheme in which a number of shareholders had participated. This follows a recent change to the Prospectus Rules that did not provide for the type of scheme operated by the Company. The Board is considering the creation of a new scheme to comply with the latest rules.

Board changes

We have been seeking to add fresh skills to the Board and I am pleased to report the appointment of Rudy Burger as an additional director. He has over 25 years of international business experience and has held senior positions at Xerox, NEC, Media Lab Europe and Scipher and has wide experience in the information technology and digital media sectors.

We would like to thank Rob Barrow for his valuable contribution to the Board up to his retirement in April 2005.

Change of auditor

During the year RSM Robson Rhodes LLP was appointed as auditor of the Company.

Outlook

The environment for venture capital investment has improved. Pricing of investments is more realistic and the increased level of M&A activity we are seeing bodes well for the existing portfolio. As always it is impossible to predict timing, but we are optimistic that during the next three to four years, we will see a step up in the level of realisations and an associated increase in net asset value. We should also start to see an increase in the level of dividend distributions, as and when gains are realised.

It has been a very tough period and we are grateful to you for your continuing support.

Robert Wright
Chairman

10 January 2006

Investment manager's report

Introduction

We are currently in a more favourable climate for early stage venture capital investment than in the Fund's earlier years and the majority of companies in the portfolio have performed much as expected during what has been a very busy period. The M&A market has been increasingly active and, following the year end, we have seen the trade sale of Footfall, which has realised a significant gain for the Company. We see the possibility of further M&A activity during the current year.

Performance of the venture capital portfolio

The year to 31 October 2005 has been a particularly active period for the venture capital portfolio. This high level of activity has continued after the year end. We have worked very closely with a large number of portfolio companies, providing further funding to support the development of their businesses, where appropriate. Progress has been made by a number of companies towards public market listings, with one AIM flotation, and others actively involved in M&A discussions.

- Celoxica Holdings plc achieved an AIM flotation in October 2005 as part of a £6.1million fundraising. Celoxica is a leading provider of electronic system level design (ESL) and synthesis solutions used for the design and development of complex electronic products and embedded systems. Typical applications include use in high performance missile detection systems and motion picture image analysis. ESL is set to become a major growth area in the electronics design automation market and, post flotation, Celoxica is well placed to take advantage of this.
- Cyclacel plc has recently announced plans to combine with Xcyte Therapies, Inc. to form a larger international biopharmaceutical company. The transaction is anticipated to close at the end of the first quarter of 2006 creating Cyclacel Pharmaceuticals, Inc., a publicly-traded company with approximately \$20million in cash, a franchise in one of the most exciting fields of biology and a development-stage portfolio of targeted oncology drug candidates affecting the cancer cell cycle.
- In October, Lorantis Limited was acquired by Celldex Therapeutics, Inc., a US based biotechnology company focused on the discovery and commercialisation of products for the treatment of cancer, infectious diseases and immune system disorders. The effective merger of the two companies improves the prospect of an IPO.
- The majority of the holding in Loudeye Corp, a NASDAQ traded stock, whose paper was received on the sale of On Demand Distribution Limited, has been sold. This investment has now returned cash of £0.8million, which, when taken with the value of the residual holding, is equivalent to a return of 1.4 times original cost.

Particular progress has been made by the following portfolio companies in the period:

- Antenova Limited, a leading developer of advanced antenna technology and innovative radio solutions used in wireless communications, has signed two significant contracts in the period. Following the completion of a £12million funding round in January 2005, the company is well positioned to meet the demand of the global handset and laptop antenna market, which is predicted to grow significantly over the next two years.
- Identum Limited, specialists in cryptography and information security, focusing on the control, authentication and protection of emails and other digital information, continues to make positive progress following the launch of Private Post in October. Private Post is a user-friendly, military grade encryption product, targeted at the business community, which enables emails to be sent securely. This is a growing market, with regulation and compliance requirements leading to an increased demand for secure email communication.
- Footfall Limited, the leading provider of customer counting technology and statistics to both the retail and retail property sectors, continued to make good progress. Following the year end, the company was sold to Experian, the information solutions company, giving rise to cash proceeds of £3.0million for Quester VCT 4 and a profit of £2.0million. The resulting profit and associated uplift in net asset value will be recognised in the current year ending 31 October 2006.

Valuation of the venture capital portfolio

Three investments have been written off during the year. The largest was Digital Union UK Limited giving rise to a loss of £679,000. The Quester team had been closely involved with the business, which designed software enabling buyers to optimise auction-based purchasing decisions, and a modest amount of additional capital had been 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. The final balance of the investment in Anadigm Limited was also written off, resulting in a loss of £223,000. This investment had been substantially written down over the last two years from its original cost. This was a great disappointment following the significant efforts made to develop and support this business, which a widely spread investment syndicate saw as having considerable potential. The company developed a product providing added functionality, potential cost savings and flexibility in design for electronic system companies building flexible analog circuits. However, it did not achieve fast enough growth in sales to justify further funding support. Reqio Limited entered into administration during the period and the final remaining value of £44,000 has been written off.

The valuations of a number of portfolio companies were increased during the year. There has been a £271,000 uplift in the carrying value of Nexagent Limited, the provider of centralised management software and hardware for interconnecting next-generation telecommunication networks, to restate it to the price of the last round.

Oxford Immunotec Limited has benefited from an uplift of £217,000 reflecting the pricing of a £7million later stage funding round, which completed in August. The company, which has developed a new blood test with fewer false positives and false negatives than the existing 100 year old skin test for tuberculosis, is well placed to take advantage of a growing recognition that the existing skin test is no longer adequate. The company's blood test has European regulatory approval and is being sold to hospitals and clinics across the European Union and beyond.

The valuation of Xention Discovery Limited, a drug discovery company focusing on the development of ion channel-acting drugs to address underserved indications, rose by £75,000. This reflects the pricing of an £11million series B financing round in July. The funds will be used to progress various programs in areas such as pain and type II diabetes and also to develop further its unique approach to ion channel drug discovery.

Workshare Limited is an established company that develops and markets document integrity software products widely used by professional services firms and large enterprises. The company's software provides secure and compliant production and exchange of business documents, enabling users to assemble and verify document content and record who has viewed documents. The company has progressed well in the period, closing key sales in new vertical markets and accelerating business transacted through its website. The carrying value of this investment was increased by £100,000 to reflect the price of the last investment.

A number of provisions have been made in the year against the previous carrying value of investments. Firstly, a provision of £60,000 has been made against the carrying value of Anthropics Limited. We continue to work with this company, a developer of pioneering visual messaging applications for the mobile communications market, despite the now very low carrying value, to achieve a recovery of value. To help achieve this, a modest further investment was made post year end.

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 its new trade partner, Syngenta. This is a positive advancement for the company and will take it through the next stage of its development. This further funding demonstrates the progress made with its science, although our investment valuation has been written down by £330,000 to reflect the pricing of this third party investment.

Investment manager's report (continued)

A 75% provision totalling £750,000 has been made against the carrying value of Cyclacel to reflect the initial market valuation of Xcyte Therapies, on the announcement of the news of its merger with Cyclacel. We expect this valuation to rise as the market becomes aware of the quality of the Cyclacel technology.

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.

Provisions totalling £1,457,000 were also made against six other investments in the portfolio to reflect short term valuation uncertainty.

The quoted venture capital portfolio has fallen in value by a net £782,000. Approximately 50% of this fall is attributable to Portrait Software plc whose share price fell to a low of 14p on the release of a trading statement. The company focuses on the provision of solutions to enable businesses to manage their customer relationships more effectively. We continue to support the company's management team and their longer term plans for the company. At 4 January 2006, the mid-market price had risen by 89% to 26.5p.

Venture capital investments made during the period

This has been a very active period for new investment. Four new and 17 further investments were made.

During the year we actively continued to seek new venture capital opportunities on behalf of the Company, following the investment policy shared with our institutional fund. The four new investments are Genosis UK plc, Global Silicon Limited, Level Four Software Limited and Pelikon Limited and were made at a total cost of £294,000. These small initial investments will be supplemented by anticipated further investments from reserves, provided agreed performance milestones are achieved. These are early stage investments with high potential that have the capability to develop into significant investments. Global Silicon, Level Four and Pelikon are revenue generating, albeit at modest levels.

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 to be sold by Boots. Quester VCT 4's initial investment was a pre-AIM investment. The company subsequently raised £7million on its AIM listing in December, which will enable manufacturing capabilities to be scaled up and marketing and sales resources to be enhanced. The share price stands at a modest premium to the flotation price.

Global Silicon, a designer and manufacturer of integrated circuit solutions for the high growth consumer audio market, raised £6million in a series B funding round. Jeremy Milne, a Quester director, has joined its board. The company's lead product, Xin, is currently sold in audio systems such as boom boxes and MP3 players in the UK and Europe. This is a rapidly growing market, fuelled by the widespread availability of digital music from download sites. The new funds will enable Global Silicon to expand its product range and its operations in Cambridge and China, with high volume production expected to commence in 2006.

Level Four Software is an independent software company, which supplies advanced software products for the testing and development of "automated teller machine" (ATM) services to banks and financial institutions. The ATM industry is expected to experience an exciting period of change over the next five years. Level Four Software is managed by an experienced management team and is well placed to meet the changing market with its innovative technology. Henry Sallitt, a Quester director, has joined its board. The aggregate £2million investment made by Quester funds will enable the company to accelerate its development.

Pelikon is an innovative manufacturer of thin, flexible electro luminescent displays for consumer electronics, home appliances and industrial applications. The company has progressed the commercialisation of its display technology and over one million flexible displays have already been distributed world wide. The investment, part of a £5million funding round, will allow the company to accelerate growth.

During a very active period, we have also supported the existing portfolio with 17 further investments totalling £4.9million.

Company	Industry Sector	£'000
Advanced Valve Technologies Limited	Industrial products & services	409
Antenova Limited	Communications	254
Avidex Limited	Healthcare & life sciences	343
Azea Networks, Inc.	Communications	432
Celona Technologies Limited	Software	345
Celoxica Holdings plc	Software	167
De Novo Pharmaceuticals Limited	Healthcare & life sciences	53
Digital Union UK Limited	Software	143
HTC Healthcare Group plc	Consumer goods & services	135
Identum Limited	Software	177
Nexagent Limited	Software	1,070
Nomad Software Limited	Software	125
Oxford Immunotec Limited	Healthcare & life sciences	714
Reqio Limited	Software	19
Teraview Limited	Healthcare & life sciences	125
Workshare Limited	Software	139
Xention Discovery Limited	Healthcare & life sciences	250
		4,900

The largest follow-on investment made during the year was Nexagent, a market leader in centralised management software and hardware for interconnecting next generation telecom networks. The company's technology enables customers to accelerate the management of advanced IP services over disparate networks, resulting in increased operational efficiencies, improved productivity and service performance. The company continues to make good progress and has been recognised with key industry awards in the period.

A well balanced portfolio

A summary of the spread of sectors covered by the portfolio at 31 October 2005 is provided in the table below:

Industry sector	Percentage of venture capital portfolio at valuation	Valuation £'000	Number of investments
	%		
Healthcare & life sciences	34.0	6,718	10
Software	28.3	5,590	10
Communications	14.1	2,778	3
Industrial products & services	10.7	2,111	4
Electronics	4.4	871	3
Internet	3.7	721	2
Semiconductors	2.5	496	2
Consumer goods & services	1.9	382	1
Hardware	0.4	69	1
	100.0	19,736	36

Listed equity and bond portfolios and cash

At 31 October 2005, the Company held a portfolio of listed equities valued at £5.7million (cost: £4.8million). During the year, the opportunity was taken to realise some of the gains accruing and 23% of the portfolio was sold realising a profit of £595,000. The listed equity portfolio performed well, generating an IRR of 27.7% over the 12 months.

At the year end, the cash holdings of the Company amounted to £5.6million. These, together with the listed equity portfolio, represent the liquid reserves held to cover follow-on investments. New investments will continue to be made should surplus liquid resources be available.

Investment manager's report (continued)

Outlook

Following the end of the technology boom in 2001, the first five years of the Company's life have been characterised by a difficult environment for young technology companies. However, conditions generally have improved, as evidenced by much increased M&A activity and improved sentiment towards AIM.

A number of companies in the portfolio are now at key points in their development where they are starting to achieve market penetration and prove their science. Values should increase as these companies achieve important milestones.

We anticipate that the rate of realisations from the portfolio will increase as the portfolio matures and, as with the very positive Footfall realisation, these future potential realisations should flow through to further dividend payments.

Quester Capital Management Limited Manager

10 January 2006

Ten largest venture capital investments

By valuation



Azea Networks, Inc.		www.azea.net	
Location:	Romford, UK	Date of initial investment:	May 2002
Status:	Unquoted	Lead investor:	Quester co-lead
Founded:	2001	Quester co-investors:	Quester VCT 5, Quester Venture Partnership
Employees:	42	Other investors:	Accel, Atlas, Lago Ventures
Funding round:	Series C	Quester Director:	Jamie Brooke
Current valuation:	£1,764,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Cost	Turnover:	- -
Cost:	£1,764,000	Loss before tax:	(£6,462,000) (£3,983,000)
Equity held:	7.5%	Retained losses:	(£10,698,000) (£4,758,943)
		Net assets:	£2,022,948 £7,962,071
Business description:	The company develops and markets submarine optical networking solutions, through which international telecoms traffic is transmitted allowing operators to exploit the full potential of their existing cable assets.		
Reason for investment:	Azea's opportunity is to supply a high performance product to upgrade existing undersea submarine cables, thereby providing a compelling alternative to the cost and risk of laying a new submarine network. Operators in the current telecoms market are reluctant to make any significant capital investment and there is demand for a new supplier to improve competition and price pressure.		
Progress since investment:	Azea has developed transmission equipment at both a considerable cost saving and a significant performance advantage over the competition. The company has an experienced management team in place and is making good progress in early sales.		
Outlook:	The company has successfully completed its first two commercial deployments, and has a number of other exciting sales opportunities in the pipeline.		



Oxford Immunotec Limited		www.oxfordimmunotec.com	
Location:	Oxford, UK	Date of initial investment:	October 2003
Status:	Unquoted	Lead investor:	Quester
Founded:	2002	Quester co-investors:	Quester VCT 5, Quester Venture Partnership, Isis College Fund
Employees:	30	Other investors:	Prelude, Top Technology, Dow Ventures
Funding round:	Series B	Quester Director:	Jonathan Gee
Current valuation:	£1,556,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Pricing of last round	Turnover:	# #
Cost:	£1,339,000	Profit before tax:	# #
Equity held:	9.3%	Retained losses:	(£1,719,000) (£465,000)
		Net assets:	£1,245,000 £2,499,000
Business description:	Oxford Immunotec develops clinical diagnostic products to monitor infection and disease based on the company's patented T-SPOT™ technology. Its first product, T-SPOT™.TB, is a new blood test for latent tuberculosis (TB) infection and is designed to replace the 100 year old TB skin test. T-SPOT™.TB has significant benefits over the traditional TB skin test, dramatically improving the speed and accuracy with which TB can be identified.		
Reason for investment:	The market for TB diagnostic kits is estimated to be worth up to £500million worldwide. The funding provided will enable Oxford Immunotec to capitalise on this market opportunity.		
Progress since investment:	Its TB test has approval for use in Europe and is already being used by hospitals and clinics throughout the EU and beyond. It is undergoing trials in the US. The company's recent valuation uplift follows a funding round in August where £7million was raised, of which Quester invested an additional £2.25million.		
Outlook:	The additional funding will help the Company move forward rapidly with the commercialisation of T-SPOT. The primary focus is on strengthening the position in Europe with trials in the US set to continue and follow-on products in early development.		

Abbreviated accounts only, therefore information is unavailable.

Ten largest venture capital investments (continued)

By valuation



Nexagent Limited		www.nexagent.com	
Location:	Reading, UK	Date of initial investment:	February 2002
Status:	Unquoted	Lead investor:	Atlas, Benchmark, Apax
Founded:	2000	Quester co-investors:	Quester Venture Partnership
Employees:	50	Other investors:	Lago Ventures
Funding round:	Series B	Quester Director:	Simon Acland
Current valuation:	£1,458,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Pricing of last round	Turnover:	£300,000 £288,000
Cost:	£1,537,000	Loss before tax:	(£6,302,000) (£6,251,000)
Equity held:	5.8%	Retained losses:	(£21,148,000) (£15,454,000)
		Net (liabilities)/assets:	(£2,365,000) £4,993,000
Business description:	Nexagent provides innovative centralised management software and hardware for interconnecting next generation telecoms networks, resulting in seamless services across disparate networks.		
Reason for investment:	To capitalise on the company's pioneering technology which enables carriers and systems integrators to automate and accelerate the creation, provision and management of advanced IP services over multiple carrier networks. Customers benefit from reduced time-to-market for new services, increased operational efficiencies, improved productivity and greater service performance.		
Progress since investment:	Nexagent continues to make good progress. The company has been recognised with some key industry awards in the year including inclusion in Red Herring 100 Europe, The Tornado Insider's Tornado100 and the World Economic Forum's 'Technology Pioneers for 2005'.		
Outlook:	Nexagent will continue to focus on a small number of early sales and winning the support of major industry players including systems integrators and carriers.		



Workshare Limited		www.workshare.com	
Location:	London, UK	Date of initial investment:	July 2002
Status:	Unquoted	Lead investor:	Quester
Founded:	1994	Quester co-investors:	Quester Venture Partnership, Quester VCT 5
Employees:	125	Other investors:	-
Funding round:	Series B	Quester Director:	Simon Acland
Current valuation:	£1,239,000	Latest published results:	31.03.2004 31.03.2003
Valuation basis:	Pricing of last round	Turnover:	\$17,654,000 \$15,045,000
Cost:	£1,139,000	Loss before tax:	(\$4,781,000) (\$3,754,000)
Equity held:	6.8%	Retained losses:	(\$6,189,000) (\$2,050,000)
		Net (liabilities)/ assets:	(\$2,578,000) \$1,561,000
Business description:	An established software company, which develops and markets document integrity software products including Workshare Deltaview, Workshare Professional and Workshare Protect. The company's software is used widely by professional services firms and large enterprises.		
Reason for investment:	To capitalise on the company's strong market position and opportunities for further growth through the launch of new products into new areas of the potential market.		
Progress since investment:	The company has progressed well. Some important deals in new vertical markets have been closed in the period. The level of business transacted through the website is accelerating sharply.		
Outlook:	The company's focus is to reinforce and broaden its position as the leading provider of document integrity software applications for professionals.		

Abbreviated accounts only, therefore information is unavailable.



Lorantis Holdings Limited		www.lorantis.co.uk	
Location:	Cambridge, UK	Date of initial investment:	April 2001
Status:	Unquoted	Lead investor:	Abingworth
Founded:	1998	Quester co-investors:	Quester VCT, Quester VCT 5, Quester Venture Partnership
Employees:	37	Other investors:	Apax, Schroders
Funding round:	Series C	Quester Director:	Iain Wilcock
Current valuation:	£1,025,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Pricing of last round	Turnover:	- -
Cost:	£1,400,000	Loss before tax:	(£7,151,000) (£5,774,000)
Equity held:	2.7%	Retained losses:	(£21,007,000) (£14,418,000)
		Net liabilities:	(£20,131,000) (£13,543,000)
Business description:	A drug discovery company focused on the development of novel immunotherapeutics with the potential to transform the treatment of a broad range of major immunological disorders including asthma, allergic reactions, autoimmune diseases and organ transplant rejection. The research originated from Imperial College, London and the University of Edinburgh.		
Reason for investment:	Autoimmune diseases like diabetes and arthritis are major health problems and are becoming more acute as the population ages. The investment was made to capitalise on the opportunity to develop a range of therapeutic products for these diseases, the market for which is potentially enormous.		
Progress since investment:	The pre-clinical trial program is continuing to make positive progress and in October 2005, Lorantis was acquired by Celldex Therapeutics, Inc.		
Outlook:	This is a medium to long term investment based on the future successes of the scientific development. The merger of Lorantis with Celldex should improve the prospect of an IPO.		



Antenna Limited		www.antenna.com	
Location:	Cambridge, UK	Date of initial investment:	April 2001
Status:	Unquoted	Lead investor:	Quester co-lead
Founded:	1999	Quester co-investors:	Quester VCT, Quester VCT 5, Quester Venture Partnership
Employees:	32	Other investors:	NIF, Cambridge Gateway, FNI
Funding round:	Series C	Quester Director:	Jamie Brooke
Current valuation:	£1,005,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Pricing of last round	Turnover:	# #
Cost:	£1,254,000	Profit before tax:	# #
Equity held:	5.4%	Retained losses:	(£9,219,000) (£7,079,000)
		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 has signed two significant contracts in the period following the completion of a £12million funding round in January 2005, and is now installed in products from three of the major handset manufacturers.		
Outlook:	The sales pipeline is good and the company is focused on securing some major contracts. Overall, the company is well positioned to meet the needs of the global handset and laptop antenna market that is predicted to increase to over \$2billion by 2006.		

Abbreviated accounts only, therefore information is unavailable.

Ten largest venture capital investments (continued)

By valuation



Footfall Limited		www.footfall.com	
Location:	Solihull, UK	Date of initial investment:	June 2002
Status:	Unquoted	Lead investor:	Quester
Founded:	1991	Quester co-investors:	Quester VCT, Quester VCT 5
Employees:	50	Other investors:	Foresight, Matrix, New Media Spark
Funding round:	Series C	Quester Director:	Jeremy Milne
Current valuation:	£1,000,000	Latest published results:	31.3.2004 31.3.2003
Valuation basis:	Cost	Turnover:	# #
Cost:	£1,000,000	Profit/ (loss) before tax:	£410,000 (£1,742,000)
Equity held:	7.7%	Retained losses:	(£6,274,000) (£7,033,000)
		Net assets:	£3,210,000 £2,450,000
Business description:	A development stage company specialising in the provision of pedestrian counting information services to retailers and shopping centre owners. It also publishes the widely used Footfall Index which measures retail traffic and is used by companies as a performance benchmark.		
Reason for investment:	To capitalise on the niche market for Footfall's business intelligence. Accurate pedestrian counting has become a 'must have' service for retailers, and for analysts and economists to provide valuable information on market and industry trends.		
Progress since investment:	Footfall counts over 100 million people every week and has installations in over 20 countries. The company enjoys long-term contracts with clients giving a high level of recurring revenue including The Bank of England, the Greater London Authority, Bluewater shopping centre and Marks & Spencer. Trading results continue to show positive progress and are in line with expectations.		
Outlook:	In December 2005 Footfall was acquired in a trade sale generating cash proceeds of 3 times cost for Quester VCT 4 and a profit of £2million.		



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
Employees:	37	Other investors:	Coherent, CRIL, Toshiba
Funding round:	Series B	Quester Director:	Jonathan Gee
Current valuation:	£858,000	Latest published results:	30.04.2005 30.04.2004
Valuation basis:	Pricing of last round	Turnover:	£2,293,000 £947,000
Cost:	£750,000	Loss before tax:	(£2,173,000) (£2,013,000)
Equity held:	4.9%	Retained losses:	(£7,254,000) (£5,195,000)
		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 diagnostic 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 refocused its target market to concentrate on exploiting 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.		

Abbreviated accounts only, therefore information is unavailable.

Xention

Xention Discovery Limited		www.xention.com	
Location:	Cambridge, UK	Date of initial investment:	September 2003
Status:	Unquoted	Lead investor:	Quester
Founded:	2002	Quester co-investors:	Quester VCT 5, Quester Venture Partnership
Employees:	34	Other investors:	Baronsmead, Enterprise, MUM, BTG, ABN Amro, Credit Agricole
Funding round:	Series B	Quester Director:	Iain Wilcock
Current valuation:	£825,000	Latest published results:	31.12.2004 31.12.2003
Valuation basis:	Pricing of last round	Turnover:	# #
Cost:	£750,000	Profit before tax:	# #
Equity held:	5.1%	Retained losses:	(£6,212,000) (£3,221,000)
		Net assets:	£1,009,000 £2,428,000
Business description:	A drug discovery company focused on the development of ion channel-acting drugs to address under served indications.		
Reason for investment:	Xention has broad capabilities in ion channel drug discovery, including electrophysiology expertise, ion channel medicinal chemistry and chemoinformatics expertise. The company plans to develop and commercialise a valuable drug discovery pipeline focused on disease indications that are associated with ion channel targets.		
Progress since investment:	The company has made positive progress in its development, demonstrated by the recent valuation uplift. The company completed an £11million financing round in July, in which Quester funds made follow-on investments totalling £2.4million.		
Outlook:	This is a long term investment. The additional funding will advance the company's program in atrial fibrillation to clinical proof-of-concept as well as progressing other programs in areas such as pain and type II diabetes. Key ion channel targets underlie each of these areas and Xention is developing novel chemistry to modulate these targets.		



Avidex Limited		www.avidex.com	
Location:	Oxford, UK	Date of initial investment:	July 2002
Status:	Unquoted	Lead investor:	Quester co-lead
Founded:	1999	Quester co-investors:	Quester VCT, Quester VCT 5, Quester Venture Partnership, Isis College Fund
Employees:	35	Other investors:	Advent, Gartmore, Oxford Technology, Syngenta
Funding round:	Series C	Quester Director:	Iain Wilcock
Current valuation:	£815,000	Latest published results:	31.3.2005 31.3.2004
Valuation basis:	Cost less provision	Turnover:	# #
Cost:	£1,144,000	Profit before tax:	# #
Equity held:	2.7%	Retained losses:	(£26,045,000) (£18,581,000)
		Net (liabilities)/assets:	(£2,844,000) £4,555,000
Business description:	A biotechnology company focused on the development of novel treatments for cancer and autoimmune therapeutics based around its proprietary T-cell receptor technology. The company was formed in 1999 as a spinout from the University of Oxford's Institute of Molecular Medicine.		
Reason for investment:	Avidex's breakthrough monoclonal T-cell receptor (mTCR) technology enables the production of fully human, soluble T-cell receptors. The high affinity T-cell receptors can be used to target T-cell antigens for cancer and autoimmune disease. This is a unique approach with multiple applications and a large potential market.		
Progress since investment:	Scientific progress has been encouraging. The company has clinical trials underway for its product RhuDex and recently announced exclusive rights to develop products to target type 1 diabetes for Kings College London. Two potential partnerships for the development and commercialisation of RhuDex and the mTCR platform are also in the pipeline.		
Outlook:	Avidex is developing these programmes and its strategy is to take products through final development phases and to market through corporate alliances. It has formed a partnership with Syngenta which has provided further funding. This is a medium to long term investment based on the future success of scientific development.		

Abbreviated accounts only, therefore information is unavailable.

Fund summary as at 31 October 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	630	1.1%	2.0%
Celoxica Holdings plc	Software	1,315	668	2.7%	2.2%
Loudeye Corp.	Internet	95	64	1.0%	0.2%
Polaron plc	Industrial products & services	250	125	1.2%	0.4%
Portrait Software plc*	Software	1,130	418	5.0%	1.3%
Public Recruitment Group plc	Industrial products & services	250	213	0.8%	0.7%
Quadnetics Group plc	Electronics	143	129	0.5%	0.4%
Total quoted venture capital investments		3,683	2,247		7.2%
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	1,471	773	30.6%	2.5%
Antenova Limited	Communications	1,254	1,005	5.4%	3.2%
Anthropics Technology Limited	Communications	1,070	10	7.0%	0.0%
Arithmatica Limited	Semiconductors	1,486	429	13.7%	1.4%
Avidex Limited	Healthcare & life sciences	1,144	815	2.7%	2.6%
Azea Networks, Inc.	Communications	1,764	1,764	7.5%	5.7%
Celona Technologies Limited	Software	666	666	11.0%	2.2%
Cyclacel Group plc	Healthcare & life sciences	1,000	250	1.4%	0.8%
De Novo Pharmaceuticals Limited	Healthcare & life sciences	803	176	3.0%	0.6%
Elaternal Holdings Limited	Software	1,155	155	13.7%	0.5%
Footfall Limited	Industrial products & services	1,000	1,000	7.7%	3.2%
Genosis UK plc	Healthcare & life sciences	90	90	0.9%	0.3%
Global Silicon Limited	Semiconductors	67	67	0.8%	0.2%
HTC Healthcare Group plc	Consumer goods & services	671	382	8.7%	1.2%
Identum Limited	Software	266	266	12.8%	0.9%
Level Four Software Limited	Software	68	68	1.2%	0.2%
Lorantis Holdings Limited	Healthcare & life sciences	1,400	1,025	2.7%	3.3%
Mesophotonics Limited	Electronics	893	670	7.2%	2.2%
Nexagent Limited	Software	1,537	1,458	5.8%	4.7%
Nomad Software Limited	Software	1,211	651	7.5%	2.1%
Opsys Management Limited**	Electronics	1,038	72	3.5%	0.2%
Oxford Immunotec Limited	Healthcare & life sciences	1,339	1,556	9.3%	5.0%
Oxxon Therapeutics Holdings, Inc.	Healthcare & life sciences	987	494	3.5%	1.6%
Pelikon Limited	Hardware	69	69	0.5%	0.2%
Regio Limited	Software	644	-	12.2%	0.0%
Sift Group Limited	Internet	875	656	4.5%	2.1%
Teraview Limited	Healthcare & life sciences	750	858	4.9%	2.8%
Workshare Limited	Software	1,139	1,239	6.8%	4.0%
Xention Discovery Limited	Healthcare & life sciences	750	825	5.1%	2.7%
Total unquoted venture capital investments		26,607	17,489		56.4%
Total venture capital investments		30,290	19,736		63.6%
Listed equity investments		4,767	5,738		18.6%
Total investments		35,057	25,474		82.2%
Cash and other net current assets		5,518	5,518		17.8%
Net assets		40,575	30,992		100.0%

* formerly AIT Group plc

** formerly Opsys Limited

Directors

ROBERT WRIGHT (59), Chairman, has been involved in the successful creation, development and sale of a number of businesses as an active entrepreneur and manager. He was part-time executive chairman of City Flyer Express Limited, which was sold to British Airways. He is also a director of Positek Limited, an unquoted position sensor business, and non-executive chairman of London and South East chartered accountants Chantrey Vellacott DFK.

RUDY BURGER (47) has over 25 years of international business experience in the information technology and the digital media sectors, as well as having significant experience in M&A, restructuring and turnarounds. He has held senior positions at Xerox (VP Software), NEC (Executive VP and CTO), Media Lab Europe (CEO) and Scipher plc (CEO) and is currently chairman and CEO of US Development Partners and is on the advisory boards of Hot Origin Venture Capital and the Institute for Global Futures.

ANDREW HOLMES (61), the Chairman of Quester, has substantial venture capital experience, having 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 5 plc and of a number of companies in the Quester portfolio.

ALAN LAMB (56) has broad experience in the management of technology businesses through formation, organic growth and acquisitions. He founded Flexion, Inc. in 1998 to provide new generation communication systems for smaller businesses. Previously, he founded Airtech Computer Security Limited and was a divisional managing director at Racal Electronics plc after Airtech was acquired to form a successful group, delivering secure electronic payments solutions. Recently he has focused on developing spin-out companies from UK universities.

JOHN SPOONER (52) co-founded Quester in 1984 after six years with 3i plc. Prior to joining 3i plc he qualified as a chartered accountant with Moore Stephens and spent some time in industry. He has over 25 years' venture capital experience. In addition to his involvement in investment decision-making, his responsibilities at Quester include marketing, fund raising and retail investor relations. He has acted as a non-executive director of a number of companies in the Quester portfolio and others and is currently a non-executive director of Quester VCT 5 plc and Invesco Perpetual UK Smaller Companies Investment Trust plc.

All the directors are non-executive and Robert Wright, Rudy Burger and Alan Lamb are independent of the Manager and comprise the Audit Committee. Andrew Holmes offers himself for re-election at the Company's Annual General Meeting to be held on 28 February 2006. Further details provided on page 36.

Robert Barrow resigned on 22 April 2005.

Rudy Burger was appointed on 19 December 2005.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 October 2005.

Activities and status

The principal activity of the Company during the year was the making of equity investments, mainly in unquoted companies. As at 31 October 2005, the Company has been granted provisional approval by the Inland Revenue as a venture capital trust in accordance with Section 842AA of the Income and Corporation Taxes Act 1988. In the opinion of the directors, the Company has conducted its affairs so as to enable it to retain 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 1p each have been listed on the Official List of the UK Listing Authority since 10 November 2000.

An ordinary resolution is required to be proposed at the Company's tenth annual general meeting, to be held in 2012, to the effect that the Company should continue as a venture capital trust. This resolution will continue to be proposed, if applicable, at five yearly intervals thereafter.

The Company has no subsidiaries.

Revocation of investment company status

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(3) 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 the 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:

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

The effect of the restatement has been to increase the loss on ordinary activities after taxation by £828,000 in respect of the current year and to decrease the loss on ordinary activities after taxation in respect of the prior year by £68,000.

In the balance sheet, the opening revenue reserve, which was showing a loss of £455,000, and the opening credit balance of the realised capital reserve of £619,000 have been combined to form the profit and loss account with an opening balance of £164,000. The revaluation reserve records revaluation amounts previously included in the unrealised capital reserve.

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 loss attributable to shareholders for the year ended 31 October 2005 was £1,143,000. An interim dividend of 1p per share amounting to £521,000 was paid on 1 April 2005. The Board does not recommend the payment of a final dividend in respect of the year.

As at 31 October 2005, the Company had accumulated unrealised capital losses of £5,652,000 and retained a positive balance on the profit and loss account of £858,000, following a transfer of £6,080,000 from the Special Reserve (see note 14).

Following the successful cash realisation of Footfall Limited in December 2005, the Board has resolved to pay an interim dividend of 1p per share for the current year ending on 31 October 2006. This dividend is payable on 1 March 2006.

The mid-market price of Quester VCT 4 plc's shares as at close of business on 31 October 2005 was 60.0p per share. The mid-market price ranged from 58.0p to 64.0p during the period.

Corporate governance

A report on corporate governance is set out on pages 31 to 32. The directors' remuneration report is set out on page 34.

Issue and buy-back of shares

During the year 1,554,825 ordinary shares of 1p each, representing 3% of the issued share capital, were bought in by the Company for cancellation at a total cost of £915,000. The impact on the net asset value was to increase it by 0.2p per share. The 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 is, or 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 held office at the date of this report and their interests in the ordinary shares of 1p each of the Company as at 31 October 2005 and as at the date of this report were as follows:

	2005	2004
RA Wright (Chairman)	100,000	100,000
APG Holmes	100,180	100,180
APM Lamb	20,667	20,667
JA Spooner	100,180	100,180

On 22 April 2005 Robert Barrow resigned as a director of Quester VCT 4 plc.

Rudy Burger was appointed as a director of Quester VCT 4 plc on 19 December 2005.

The interests in the ordinary shares of the Company held by APG Holmes and JA Spooner, as disclosed in the table above, included interests held by connected parties.

All of the directors' share interests shown above were held beneficially. No options over the share capital of the Company have been granted to the directors. According to the register of directors' interests no right to subscribe for shares in the Company was granted to, or exercised by, any director during the financial year. No director had an interest in the share capital of the Company that would have to be disclosed to the Company under sections 198 to 208 of the Companies Act 1985.

APG Holmes and JA Spooner are executive directors of Quester Capital Management Limited (QCML), the Investment Manager, and shareholders and directors of its parent company, Querist Limited.

APG Holmes and his immediate family hold £18,000 nominal of the redeemable loan notes and JA Spooner and his immediate family hold £18,000 nominal of the redeemable loan notes referred to in note 12 of the financial statements. A further £12,500 in nominal amount of the redeemable loan notes are held by Quester Venture Participations Limited (QVPL), a subsidiary of Querist Limited. APG Holmes and JA Spooner are executive directors of QVPL.

Directors' report (continued)

Save for the redeemable loan notes referred to above and the Management Agreement referred to below, no contracts subsisted during or at the end of the period in which any director was materially interested. Disclosures required by the Financial Reporting Standard (FRS) 8, 'Related Party Disclosures', are set out in note 19 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 year ended 31 October 2005, are set out in note 3 of the financial statements.

Newton Investment Management Limited is the adviser to the Company in respect of investments in listed equities and has limited discretion to manage this portfolio of investments.

Secretary

Martin Williams resigned as company secretary on 1 September 2005 and was replaced by Richard Drover on the same day.

Creditor payment policy

The Company's payment policy for the forthcoming year is to ensure settlement of suppliers' invoices in accordance with their standard terms. As at 31 October 2005 there were 58 days' billing from the suppliers of services outstanding (2004: nil days).

Substantial shareholdings

As at 31 October 2005 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

Annual general meeting

The Annual General Meeting will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 11.30 a.m. on 28 February 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 Andrew Holmes as a director and the appointment of the auditor, RSM Robson Rhodes LLP (replacing KPMG Audit plc who resigned during 2005), the following resolutions are proposed:

Election of Rudy Burger as a director (Resolution 4 – ordinary resolution)

This resolution proposes to elect Mr Rudy Burger as a director of Quester VCT 4 plc. Biographical details are included on page 15 of this report.

Authority to allot shares (Resolution 6 – 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 may be allotted under this authority is 49,403,581, which represents the total unissued share capital of the Company.

Authority for the disapplication of pre-emption rights (Resolution 7 – special resolution)

This resolution proposes to renew the directors' power to allot equity securities for cash up to an aggregate nominal amount of £50,596.42 (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 8 – special resolution)

This resolution proposes to renew the existing power of the Company to purchase its own shares up to a maximum number of 5,059,642 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.

Amendment of the Articles (Resolution 9 – special resolution)

Article 166 of the Articles provides that every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses and liabilities incurred in the execution of the duties of his office provided that the indemnity shall only have effect in so far as its provisions are not void under section 310 of the Act. With effect from 6 April 2005, section 310 has been amended and a change is therefore required to this Article.

The proposed new Article 166 will, if approved, enable the Company to make use of the changes introduced by the Companies (Audit, Investigations and Community Enterprises) Act 2004 that, among other things, relax the existing prohibition against companies indemnifying their directors against liability and permit companies to pay directors' defence costs as they are incurred.

The proposed new Article 166 contains a mandatory indemnity for Directors equivalent to the indemnity currently in place and a general indemnity allowing the Company if it considers it appropriate to indemnify Directors subject to the provisions of the Act (as amended). Any indemnity to be granted pursuant to the new sections 309A to 309C of the Act will be subject to Board approval and will be disclosed in the annual Directors' remuneration report.

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 resigned as the Company's auditor and were replaced by RSM Robson Rhodes LLP. A resolution to appoint RSM Robson Rhodes LLP, Chartered Accountants, as auditor to the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

RJ Drover
Secretary

10 January 2006

Profit and loss account

For the year ended 31 October 2005

	Notes	2005 £'000	2004 £'000
(Loss)/gain on realisation of investments	9(c)	(404)	554
Income	2	437	267
Investment management fee	3	(847)	(972)
Other expenses	4	(324)	(353)
Loss on operating activities		(1,138)	(504)
Interest payable on loan notes	12	(5)	(5)
Loss on ordinary activities before taxation		(1,143)	(509)
Tax on ordinary activities	6	-	-
Loss on ordinary activities after taxation		(1,143)	(509)
Dividends paid	7	(521)	-
Transfer from reserves		(1,664)	(509)
Loss per share	8	(2.2)p	(1.0)p

Statement of total recognised gains and losses

For the year ended 31 October 2005

	Notes	2005 £'000	2004 £'000
Loss on ordinary activities after taxation		(1,143)	(509)
Net unrealised loss on revaluation of investments	9(b)	(1,737)	(4,500)
Total losses recognised during the period		(2,880)	(5,009)
Total losses per share	8	(5.6)p	(9.5)p

Note of historical cost profits and losses

For the year ended 31 October 2005

	Note	2005 £'000	2004 £'000
Reported loss on ordinary activities before taxation		(1,143)	(509)
Realisation of prior years' net unrealised losses on investments	14	(3,722)	(2,465)
Historical cost loss on ordinary activities before taxation		(4,865)	(2,974)

All items in the above statements 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 accompanying notes are an integral part of these statements.

Balance sheet

As at 31 October 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Investments	9(a)	25,474	25,814
Current assets			
Debtors	10	337	578
Cash at bank		5,641	9,185
Creditors (amounts falling due within one year)	11	5,978 (360)	9,763 (237)
Net current assets		5,618	9,526
Creditors (amounts falling due in over one year)	12	(100)	(100)
Net assets		30,992	35,240
Capital and reserves			
Called-up equity share capital	13	506	520
Capital redemption reserve	14	26	11
Share premium account	14	285	218
Special reserve	14	34,969	41,964
Revaluation reserve	14	(5,652)	(7,637)
Profit and loss account	14	858	164
Equity shareholders' funds		30,992	35,240
Net asset value per share	15	61.3p	67.7p

The balance sheet as at 31 October 2004 has been restated to reflect the creation of a capital redemption reserve on the repurchase and cancellation of shares and also to reflect the revocation of the Company's investment company status. The impact of this change in status is detailed in the directors' report on page 16.

The financial statements on pages 20 to 30 were approved by the directors on 10 January 2006 and are signed on their behalf by:

Robert Wright
Chairman

The accompanying notes are an integral part of this statement.

Cash flow statement

For the year ended 31 October 2005

	Notes	2005 £'000	2004 £'000
Cash outflow from operating activities	17	(494)	(1,030)
Financial investment			
Purchase of venture capital investments	9(b)	(5,194)	(6,993)
Purchase of listed equities and fixed interest investments	9(b)	(1,044)	(2,557)
Sale/redemption of venture capital investments	9(b)	771	3,715
Sale/redemption of listed equities and fixed interest investments	9(b)	3,643	2,731
Sale/redemption of venture capital investments previously written off	9(c)	142	–
Total financial investment		(1,682)	(3,104)
Equity dividends paid		(521)	–
Financing			
Issue of shares in accordance with the terms of the dividend reinvestment scheme	13	68	–
Share buy-ins	13	(915)	(490)
Total financing		(847)	(490)
Decrease in cash for the period		(3,544)	(4,624)
Reconciliation of net cash flow to movement in net funds			
Decrease in cash for the period		(3,544)	(4,624)
Net funds at the start of the period		9,185	13,809
Net funds at the end of the period		5,641	9,185

The accompanying notes are an integral part of this statement.

Notes to the financial statements

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below:

Basis of accounting

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards.

Investments

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

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

Listed investments are stated at mid-market prices. However, where the Company is unable to sell its shares in a company on account of a lock-up, a discount is applied to the mid-market price. If the lock-up is for a period of six months or less from the reporting date then a discount of 10% is to be applied. If the lock-up is for a longer period than six months then a discount of 10% or more will be applied.

Certain venture capital investments deemed to be associated undertakings are carried at cost or valuation in accordance with the Company's normal accounting policy and Financial Reporting Standard (FRS) 9.

Gains and losses on investments

When the Company revalues its investments during an accounting period, any gains or losses are credited/charged to the Revaluation Reserve, unless the directors believe that there has been a permanent diminution in value, in which case the write down is charged directly to the Profit and Loss account. When an investment is sold, or written off, any balance already held on the Revaluation Reserve is transferred to the Profit and Loss account as a movement on reserves. Where the overall result of the investment is a realised loss, a transfer is then made from the Special Reserve, created in August 2001 following the reduction of the Share Premium account, to the Profit and Loss account, the amount of this transfer being equal to the realised loss.

Income

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Income receivable on unquoted equity and non-equity shares and loan notes 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. Expenses are charged wholly to the profit and loss account, with the exception of expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate. Any costs associated with the issue of shares are charged to the Share Premium account. Any costs associated with the buy-back of shares are charged to the Special Reserve. The Capital Redemption Reserve reflects the nominal value of shares bought back.

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 maintain its approved venture capital trust status for the foreseeable future.

Notes to the financial statements (continued)

Foreign exchange

Assets denominated in a foreign currency are converted to sterling at the appropriate foreign exchange rate ruling at the balance sheet date. Foreign currency income is converted to sterling on receipt.

2 Income

	2005 £'000	2004 £'000
Dividend income		
– Listed companies	210	179
Interest receivable		
– Fixed interest securities	2	39
– Loans to unquoted companies	19	–
– Bank deposits	52	40
Other income from shares and securities	154	–
Sundry income	–	9
	437	267

3 Investment management fee

Quester Capital Management Limited (QCML) provides investment management services to the Company under an agreement dated 30 October 2000.

QCML is a wholly owned subsidiary of Querist Limited, a company in which APG Holmes and JA Spooner are beneficial shareholders. APG Holmes and JA Spooner are executive directors of QCML.

A charge of £847,000 (2004: £972,000) in respect of the management fee payable to QCML was accrued during the year together with irrecoverable VAT of £127,000 (2004: £181,000). The fee, which is calculated monthly and is payable quarterly in advance, was levied at a rate of 2.5% (2004: 2.5%) on the Company's net assets during the financial year ended 31 October 2005.

The manager's appointment is for a fixed term which shall expire on the seventh anniversary of the commencement of the fund and shall continue until terminated by either party subject to a notice period. If such notice is given on or after the seventh anniversary of the commencement of the fund, the notice period shall be the longer of (i) twelve months and (ii) the period from the date on which notice is given to the tenth anniversary of the commencement of the fund. Thereafter the notice period shall be twelve months.

QCML provides administrative and secretarial services to the Company for which it is entitled to a fee of £54,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (note 4).

The management fee payable to Newton Investment Management Limited, to the extent that it is not covered by transaction fees payable by the Company, will be met by QCML out of the above fee.

4 Other expenses

	2005 £'000	2004 £'000
Administration and secretarial services	54	53
Directors' remuneration (note 5)	33	39
Auditor's remuneration		
– audit services	14	22
– non audit services	6	9
Legal and professional expenses	8	21
Insurance	13	11
FSA, UKLA and registrar's fees	19	19
Irrecoverable VAT	150	191
Other expenses	27	(12)
	324	353

5 Directors' remuneration

	2005 £'000	2004 £'000
Fees paid to directors	9	15
Amounts paid to third parties, excluding VAT, in consideration for the services of directors	24	24
	33	39

The total fees paid or payable in respect of individual directors for the period is detailed in the Directors' Remuneration Report commencing on page 34.

6 Tax on ordinary activities

	2005 £'000	2004 £'000
Corporation tax payable	–	–
Reconciliation of loss on ordinary activities to taxation		
	2005 £'000	2004 £'000
Loss on ordinary activities before tax	(1,143)	(509)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	(343)	(153)
Effects of:		
Loss/(gain) on investments	121	(166)
Loss on operating activities	222	319
Corporation tax payable	–	–

The company has excess trading losses of £2,612,000 (2004: £1,732,000) that are available to offset against future profits. A deferred tax asset of £784,000 (2004: £520,000) has not been recognised in respect of these losses and will be recoverable only to the extent that the Company has sufficient future taxable profits.

7 Dividends paid

	2005 £'000	2004 £'000
Interim dividend: 1p per share paid 1 April 2005	521	–

8 Return per share

The loss per share of 2.2p (2004: 1.0p) is based on the loss on ordinary activities after tax of £1,143,000 (2004: £509,000) and on ordinary shares of 51,547,440 (2004: 52,471,757), being the weighted average number of ordinary shares in issue during the year.

The total recognised loss per share of 5.6p (2004: 9.5p) is based on the total recognised losses for the period of £2,880,000 (2004: £5,009,000) and on the weighted average number of ordinary shares in issue during the period of 51,547,440 (2004: 52,471,757).

9 Investments**9(a) Summary of investments**

	2005 £'000	2004 £'000
Venture capital investments	19,736	18,815
Bonds and equity investments	5,738	6,999
	25,474	25,814
Bonds and equity investments comprise:		
– Listed fixed interest investments	–	876
– Listed equity investments	5,738	6,123
	5,738	6,999

Notes to the financial statements (continued)

9(b) Movements in investments

	Venture capital investments £'000	Bonds & equity investments £'000	Total £'000
Cost at 1 November 2004	26,789	6,663	33,452
Unrealised net (loss)/gain	(7,974)	336	(7,638)
Valuation at 1 November 2004	18,815	6,999	25,814
Movements in the year:			
Purchases at cost	5,194	1,044	6,238
Disposals			
– proceeds	(771)	(3,643)	(4,414)
– realised net gains on disposal	160	361	521
Write-off of investments	(946)	–	(946)
Unrealised (loss)/profit on revaluation of investments	(2,716)	979	(1,737)
Amortisation	–	(2)	(2)
Valuation at 31 October 2005	19,736	5,738	25,474
Cost at 31 October 2005	26,359	4,767	31,126
Unrealised net (loss)/profit at 31 October 2005	(6,623)	971	(5,652)
Valuation at 31 October 2005	19,736	5,738	25,474

Cost, as reflected in the table above, represents the original cost of investments held, less any reduction made on account of perceived permanent diminution in value.

9(c) Loss on realisation of investments

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

	2005 £'000	2004 £'000
Realised net gains on disposal	521	1,606
Write-off of investments	(946)	(1,052)
Recoveries made in respect of investments previously written off	142	–
Write down of debtors (see note 10)	(121)	–
	(404)	554

Realised net gains on disposal represents 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 a permanent diminution in value.

10 Debtors

	2005 £'000	2004 £'000
Debtors: amounts falling due in over one year	138	399
Prepayments and accrued income	28	41
Other debtors	171	138
	337	578

Other debtors and debtors falling due in over one year represent loan notes received in connection with the sale of the investment in CDC Solutions Limited in December 2003. The loan notes receivable amount to £278,000 (2004: £415,000), with £139,000 falling due within one year (2004: £138,000) and the balance of £138,000 due in over one year (2004: £278,000). In 2004 an amount of £121,000 in respect of an earnout entitlement, also arising from the sale of CDC Solutions, was included in amounts falling due in over one year. This earnout is now valued at £nil. Other debtors also includes an amount receivable in respect of Blazephotonics Limited of £32,000 (2004: £nil).

11 Creditors (amounts falling due within one year)

	2005 £'000	2004 £'000
Accruals	360	237

12 Creditors (amounts falling due in over one year)

Quester Venture Participations Limited and a number of individuals (or related trusts of such individuals) who are shareholders and/or hold appointments with the Quester group of companies, hold redeemable loan notes in the Company, totalling a nominal amount of £100,000 (2004: £100,000). The loan notes are redeemable at the option of the Company or the holders and are transferable. The loan notes provide a return to holders, over and above the entitlement to interest of 5% per annum, which is dependent upon the performance of the Company. The return will be paid by way of additional interest and a premium on redemption.

The loan note instrument provides that holders will be entitled to a redemption premium of an amount of up to 20% of the net asset value of the Company (the "Applicable Percentage") depending upon the extent to which the aggregate net asset value and gross distributions from the Company exceed an increasing target level ("Target Base") in the years 2006 to 2012. When the relevant Target Base is first achieved, but not exceeded, in the relevant year, the Applicable Percentage shall be 3%. As and when the net asset value and distributions exceed the Target Base in that year or any later year, then the Applicable Percentage increases by 0.3 multiplied by the excess. The Target Base is 160p per share for the years to 2006, increasing by 2p on the publication of each of the interim statements and audited accounts each year thereafter, rising to 186p on the expiry of the period in 2012. In addition, there is a requirement that as well as the Target Base being achieved, dividends of an aggregate of at least 60p per ordinary share must have been declared by the Company before an entitlement to a redemption premium can arise. The directors do not consider it appropriate to recognise this potential redemption premium as the target level is unlikely to be achieved in 2006.

If the Target Base is achieved, additional interest will be payable. Redemptions will take place, if the holders so request, within 60 days of the publication of the audited accounts and interim statements in each applicable year. Holders may require the Company to redeem up to a particular proportion of their loan notes, determined by reference to the Applicable Percentage at that time.

13 Called-up equity share capital

	2005 £'000	2004 £'000
Authorised: 100,000,000 (2004:100,000,000) ordinary shares of 1p	1,000	1,000
Allotted, issued and fully paid: 50,596,419 (2004: 52,047,965) ordinary shares of 1p	506	520

The Company bought back 1,554,825 ordinary shares with a nominal value of £15,548, representing 3% of the issued share capital, at a cost of £915,000. These shares were subsequently cancelled.

In April 2005 the Company issued 103,279 ordinary shares under the terms of the Dividend Reinvestment Scheme with an aggregate nominal value of £1,033 for a net consideration of £68,000.

Notes to the financial statements (continued)

14 Reserves

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Realised capital reserve £'000	Profit and loss account £'000
At 1 November 2004	520	–	218	41,975	(7,637)	619	(455)
Effect of revoking investment company status	–	–	–	–	–	(619)	619
Effect of creating a capital redemption reserve fund	–	11	–	(11)	–	–	–
At 1 November 2004 (restated)	520	11	218	41,964	(7,637)	–	164
Share buy-ins	(15)	15	–	(915)	–	–	–
Shares issued under the dividend reinvestment scheme	1	–	67	–	–	–	–
Realisation of prior years' net unrealised losses on investments	–	–	–	–	3,722	–	(3,722)
Unrealised loss on revaluation of investments	–	–	–	–	(1,737)	–	–
Transfer from special reserve to profit and loss account	–	–	–	(6,080)	–	–	6,080
Loss for the period	–	–	–	–	–	–	(1,664)
At 31 October 2005	506	26	285	34,969	(5,652)	–	858

Full details of the revocation of investment company status are provided in the directors' report on page 16.

A Capital Redemption Reserve has been created to reflect the total cost of share buy-ins in the Special Reserve. 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 August 2001. 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 facilitate the payment of dividends out of realised capital gains. The creation of this reserve and its intended uses received approval from the High Court of Justice on 8 August 2001.

A transfer of £6,080,000 has been made from the Special Reserve to the Profit and Loss account, representing the total realised losses on investments incurred of £5,280,000 in the year ended 31 October 2005 and £800,000 to facilitate the payment of the 2005 interim dividend.

15 Net asset value per share

The net asset value per share as at 31 October 2005 of 61.3p (2004: 67.7p) is based on net assets of £30,992,000 (2004: £35,240,000) divided by the 50,596,419 (2004: 52,047,965) ordinary shares in issue at that date.

16 Reconciliation of movements in equity shareholders' funds

	2005 £'000	2004 £'000
At 1 November 2004	35,240	40,739
Issue of shares under the terms of the dividend reinvestment scheme	68	–
Cost of share buy-backs	(915)	(490)
Loss on ordinary activities after taxation	(1,143)	(509)
Net unrealised loss on revaluation of investments	(1,737)	(4,500)
Dividends paid	(521)	–
At 31 October 2005	30,992	35,240

17 Reconciliation of operating loss to net cash outflow from operating activities

	2005 £'000	2004 £'000
Loss on operating activities	(1,138)	(504)
Decrease in debtors	120	31
Increase/(decrease) in creditors	118	(34)
Loss/(gain) on realisation of investments	404	(554)
Amortisation of fixed interest securities	2	31
Net cash outflow from operating activities	(494)	(1,030)

18 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 may comprise:

- Shares, securities and other financial commitments, including 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, interest rate and foreign currency risk.

Short term debtors and creditors that meet the definition of a financial asset or liability under FRS 13 have been excluded from the numerical disclosures in this note.

Liquidity risk

The Company's assets comprise quoted and unquoted equity and non-equity shares and fixed income securities. Future short-term flexibility is achieved through the Company's cash resources, proceeds from the disposal of venture capital investments and from the listed equity portfolio. As at the year end, the Company had no borrowings other than loan notes amounting to £100,000 (2004: £100,000) (see note 12).

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, managed by stock selection.

Interest rate risk

At the period end and throughout the period, other than the loan notes referred to in note 12, the Company had no liabilities (2004: nil) that were subject to interest rate risk.

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

	2005 £'000	2004 £'000
Floating rate	5,641	3,616
Fixed rate	1,699	1,665
Non-interest bearing	23,775	29,718
	31,115	34,999

Fixed rate financial asset weighted averages

	2005	2004
Fixed rate financial assets weighted average interest rate	9.5%	6.0%
Weighted average time for which rate is fixed (years)	3.4	1.5

Notes to the financial statements (continued)

Foreign currency risk

The functional currency of the Company is sterling. However, the Company does hold a number of foreign equities that are listed on recognised stock exchanges. As at the period end, the sterling equivalent value of such foreign investments amounted to £1,834,000 (2004: £2,245,000), representing 5.9% (2004: 6.4%) of the Company's net assets as at that date.

The Company's foreign exchange exposure as at 31 October 2005 was as follows:

	2005 £'000	2004 £'000
Euros	638	622
Hong Kong Dollars	251	250
Japanese Yen	110	–
Singapore Dollars	–	102
Swiss Francs	312	311
United States Dollars	523	960
	1,834	2,245

Fair values of financial assets

All the financial assets of the Company are held at fair value as at 31 October 2005.

	2005 Book value and fair value £'000	2004 Book value and fair value £'000
Primary financial assets:		
Quoted investments	7,985	9,794
Unquoted investments	17,489	16,020
Debtors: amounts falling due in over one year	138	399
Cash at bank	5,641	9,185

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

19 Related party disclosures

Some of the directors and members of their close families have undertaken the following transactions (purchases unless otherwise stated) in the shares of companies in which the Company 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	2005 £'000	No. of directors	2004 £'000
Anadigm Limited	–	–	2	7
CDC Solutions Limited sale [†]	–	–	2	23
Elatel Holdings sale*	–	–	2	–

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

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

Alan Lamb has a contract for the provision of company secretarial services to Identum Limited. He holds 200 share options in this company, which were granted to him at nil cost.

Quester Capital Management Limited may, from time to time, be eligible to receive transaction fees and directors' fees from investee companies. During the year ended 31 October 2005, fees of £48,000 attributable to the investments of the Company were received pursuant to these arrangements (2004: £61,000).

20 Commitments

At 31 October 2005 there were commitments totalling £33,000 (2004: £625,000).

Corporate governance

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 resignation of R Barrow in April 2005, the Board consisted of four non-executive directors, two of whom were independent of the Company's investment manager. A replacement, R Burger, was appointed in December 2005. During the intervening period and to ensure the continued independence of the Board, it was resolved that one or other of the two non-independent directors would abstain from any vote taken by the Board so as to ensure that a majority of independent directors participated in any such vote.

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 its professional advisers (neither a nominations nor a remunerations committee has not 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, related party transactions. In addition, the Board carefully reviews the allocation of investments made by the Manager between the Company and its other managed funds, in accordance with established guidelines. The Board receives detailed management accounting information on a monthly basis. Any additional information is supplied on request. Due to the small size of the Board and the lack of complex business, none of the directors have been nominated as a senior independent director.

The attendance of individual directors at the formal quarterly Board and Audit Committee meetings during the year was as follows:

	Scheduled Board meetings	Audit Committee meetings
RA Wright	4/4	2/2
R Barrow (resigned 22 April 2005)	1/2	1/1
APG Holmes	4/4	n/a
APM Lamb	4/4	2/2
JA Spooner	4/4	n/a

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

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 from the Higgs report, which forms part of 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. The Chairman's own evaluation is performed by the other directors. 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. All directors, in accordance with the code, will submit themselves for re-election at least once every three years. Andrew Holmes is being proposed for re-election at the forthcoming AGM. The Chairman has conducted a performance evaluation of Andrew Holmes, taking into account the views of all directors. He considers that his performance continues to be effective and invaluable and that he continues to demonstrate commitment to the role. He therefore believes that Andrew Holmes 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 the furtherance of their duties if necessary. Information regarding the terms of appointment if the non-executive directors is available on request.

The Audit Committee

The Audit Committee consists of the two independent non-executive directors (three prior to the resignation of R Barrow, and three subsequent to the appointment of R Burger). Written terms of reference have been constituted for the Audit Committee are available to shareholders on request. The Audit Committee meets at least twice a year to review the Company's financial controls, the interim financial statement, annual report and accounts and the terms of appointment of the external auditor together with its remuneration and independence. 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 has satisfied itself that the auditors are independent and that their objectivity is unimpaired.

Corporate governance (continued)

Internal control

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

The need for an internal audit function has been considered by the Board and will be reconsidered annually. Due to the size of the business and lack of complexity, the directors consider that the establishment of an internal audit function is unnecessary.

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

Relations with shareholders

The Company does not have any major shareholders.

This year's AGM will be held on 28 February 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, a brief presentation will be given by a representative of the Manager. Representatives of the Manager, the Board and the Audit Committee will be available to answer any questions that a shareholder may have. In addition to the above, the Board is always pleased to respond to any written queries made by shareholders.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' remuneration report

This report is prepared in accordance with Schedule 7A of the Companies Act 1985. The Company's auditor is required to report on certain information contained within this report (shown in the box below). The auditor's opinion is included within the auditor's report set out on page 35.

The Board as a whole considers directors' remuneration and a remuneration committee has not been established. The Board has access to independent advice where it considers it appropriate. The Board's policy is that the remuneration of non-executive directors should reflect time spent and the responsibilities borne by the directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The Company's articles of association limit fees payable to the directors to £125,000 per annum in aggregate. Directors' fees payable during the year totalled £33,000, as set out in note 5 to the financial statements.

APG Holmes, JA Spooner and their immediate families are holders of redeemable loan notes as part of a performance incentive plan. Additional details are provided on page 17 and in note 12. The share option arrangement is viewed as an appropriate incentive plan for these directors, who are also directors of QCML, as it links their benefits to those of the shareholders of the Company. Except for this, no director's remuneration or former director's remuneration is performance related and directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits. It is considered appropriate that no other aspect of 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.

The directors who served during the year received emoluments as detailed below.		
	2005 £'000	2004 £'000
RA Wright (Chairman)	15	15
R Barrow (resigned 22 April 2005)	6	12
APG Holmes	–	–
APM Lamb	12	12
JA Spooner	–	–

The level of emoluments has remained the same since the inception of the Company. None of the directors received any other remuneration or benefit during the year except as disclosed in these accounts. APG Holmes and JA Spooner have waived their entitlement to directors' fees for all accounting periods ended on, or prior to, 31 October 2005.

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 incorporation compared to a range of other indices (since there is no clearly appropriate benchmark against which the performance of the Company should be measured, a range of other indices are shown including the FTSE Small Cap Index, the Hoare Govett Smaller Companies Index, the FTSE AIM Index and the FTSE Techmark 100 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 10 January 2006 and signed on its behalf by Robert Wright.

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

Independent auditor's report to the shareholders of Quester VCT 4 plc

We have audited the financial statements on pages 20 to 30. 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 auditors' 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, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of The Combined Code on Corporate Governance issued by the Financial Reporting Council in 2003 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 the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, the Corporate Governance Statement and the section on the Ten Largest Venture Capital Investments. 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 October 2005 and of its loss 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
10 January 2006

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Quester VCT 4 plc will be held at Dartmouth House, 37 Charles Street, London W1J 5ED at 11.30 am on 28 February 2006 for the following purposes:

As ordinary business

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 6 will be proposed as ordinary resolutions and number 7 will be proposed as a special resolution. Special notice has been given in respect of resolution number 5.

- 1 To receive, consider and adopt the annual report and accounts for the year ended 31 October 2005, 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 31 October 2005.
- 3 To re-elect Andrew Holmes as a director.
- 4 To elect Rudy Burger as a director.
- 5 To appoint RSM Robson Rhodes LLP as auditor of the Company and to authorise the directors to fix its remuneration.
- 6 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 £494,035.81 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.

- 7 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 6 above as if sub-section (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 £50,596.42;

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.

As special business

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

- 8 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 1p each in the capital of the Company ("Ordinary Shares") provided that:

- (a) the maximum number of Ordinary Shares authorised to be purchased is 5,059,642;
- (b) the minimum price which may be paid for an Ordinary Share is 1p;

- (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% 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 15 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.

9 Amendment to Articles of Association:

THAT, pursuant to section 9 of the Act, the Articles of Association of the Company be and are hereby amended by deleting the present Article 177 and substituting therefor the following new Article 177:

- "177.1 Every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all liabilities incurred by him:
- 177.1.1 in defending any proceedings (whether civil or criminal) in which judgement is given in his favour or he is acquitted; or
 - 177.1.2 in connection with any application under section 144(3) or (4) of the Act (acquisition of shares by innocent nominee) or section 727 of the Act (general power to grant relief in case of honest and reasonable conduct) in which relief is granted to him by the court.
- 177.2 The Company may indemnify, out of the assets of the Company, any Director of the Company or of any associated company against all losses and liabilities which he may sustain or incur in the execution of the duties of his office or otherwise in relation thereto, provided that no such indemnity shall extend to any liability incurred by such Director:
- 177.2.1 to the Company, or as the case may be, to the associated company of which he is a Director; or
 - 177.2.2 to pay a fine imposed in criminal proceedings or any such sum payable to a regulatory authority by way of a penalty in respect of non-compliance with any requirement of a regulatory nature (howsoever arising); or
 - 177.2.3 in defending any criminal proceedings in which he is convicted; or
 - 177.2.4 in defending any civil proceedings brought by the Company or any associated company in which judgement is given against him; or
 - 177.2.5 in connection with any application to the court for relief from liability under section 144(3) or (4) of the Act or for negligence, default, breach of duty or breach of trust in relation to the affairs of the company, or as the case may be, the associated company of which he is a Director, which application is refused,
- where such conviction, judgement or refusal or relief has become final (within the meaning of the Act).
- 177.3 The Company may provide any Director of the Company with funds to meet expenditure incurred or to be incurred by him:
- 177.3.1 in defending any civil or criminal proceedings brought against him in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to the Company; or
 - 177.3.2 in connection with any application to the court for relief from liability under section 144(3) or (4) of the Act for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company,
- and the Company shall be permitted to do anything which would otherwise be prohibited under section 330 of the Act to enable a Director to avoid incurring such expenditure, provided that if the Director is convicted or judgment is given against him or if the court refused to grant relief, and upon such conviction or judgment or refusal becoming final (within the meaning of the Act), the Director shall become liable to repay to the Company the full amount of any such funds provided to

Notice of annual general meeting (continued)

him and any liability incurred by the Company to avoid a Director incurring any such expenditure shall fall to be discharged.

- 177.4 For the purpose of Article 177.2 above, the expression “associated company” shall mean a company which is either a subsidiary or a holding company of the Company or a subsidiary of such holding company as such terms are defined in the Act.”

By order of the Board

RJ Drover
Secretary

29 Queen Anne’s Gate
London, SW1H 9BU
10 January 2006

Note:

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 an office or notarially certified copy of such power or authority) must be lodged with the Company’s registrars, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 11.30 a.m. on 26 February 2006. Completion of a form of proxy will not affect the right of a member to attend and vote at the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of member of the Company at 11.30 a.m. on 26 February 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 joint holding.

Corporate information

Directors

Robert Wright, Chairman
Rudy Burger
Andrew Holmes
Alan Lamb
John Spooner

Secretary

Richard Drover

Registered Office

29 Queen Anne's Gate
London SW1H 9BU
Company registered number 4063505

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
186 City Road
London EC1V 2NU

Quoted and Fixed Interest Investment Adviser

Newton Investment Management Limited
Mellon Financial Centre
160 Queen Victoria Street
London EC4V 4LA

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0870 162 3100
Fax: 020 8639 2342

Bankers

The Royal Bank of Scotland
280 Bishopsgate
London EC2M 4RB

Shareholder information

Annual General Meeting

11.30 am on 28 February 2006

The Notice of Annual General Meeting is contained in this report. A proxy form is enclosed with this circular. To be valid, completed proxy forms should be returned to Capita Registrars no later than 11.30 am on 26 February 2006.

Dividends

No dividend is proposed in respect of the year ending 31 October 2005.

The directors have resolved to pay an interim dividend of 1p per share in respect of the year ending 31 October 2006.

Payment date	1 March 2006
Ex-dividend date	1 February 2006
Associated record date	3 February 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. The Board is considering the creation of a new scheme to comply with the latest rules.

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 4 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 4 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.



Quester

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Quester Capital Management is authorised and regulated by the Financial Services Authority. Its only clients are the venture capital trusts and the funds that it manages and it therefore does not provide advice to, or provide the protections that are afforded to such clients, to anyone else.