Quester VCT 4 PLC

Annual Report 2006

The objective of Quester VCT 4 plc is to provide shareholders with an attractive tax free income and capital return, enhanced by tax benefits, by investing in a diverse portfolio consisting largely of unquoted investments. From time to time the portfolio will also include quoted equities and fixed interest securities.

The venture capital portfolio focuses mainly on early stage technology-related companies in the ICT and healthcare sectors.

Dividends paid by Quester VCT 4 plc, as an approved venture capital trust, are tax free, which substantially enhances the effective returns to shareholders.

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

Financial highlights
As at 31 October 2006

Per ordinary share (pence)	2006	2005 Restated	2004 Restated
Capital values			
Net asset value	65.8	61.1	67.6
Share price	54.0	60.0	62.0
Return and dividends			
Dividend paid	1.0	1.0	–
Cumulative dividend	4.9	3.9	2.9
Total return*	**70.7**	**65.0**	**70.5**

*Net asset value plus cumulative dividend

A final dividend of 1p per share has been proposed and is payable on 15 March 2007 increasing cumulative dividends for an original investor in Quester VCT 4 to 5.9p. Under new accounting standards, this dividend is not provided for in these accounts and is not reflected in the table above.

The returns summarised above are applicable only to original shareholders of Quester VCT 4 plc. They do not represent the historic returns to subsequent subscribers.

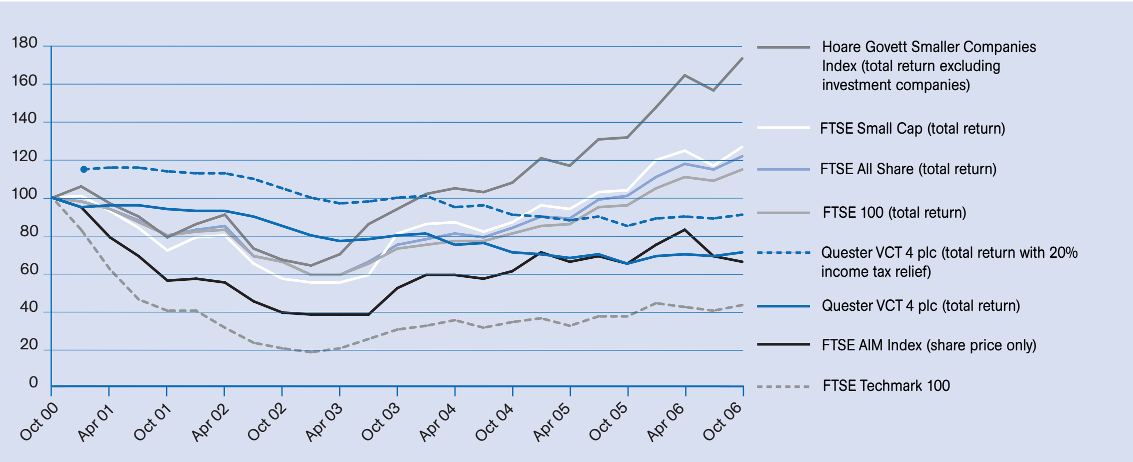
The above table excludes any tax benefits (20% income tax relief and capital gains tax deferral) received on subscription for shares in the Company. Inclusive of initial income tax relief, the total returns to an original investor would be equivalent to 90.7p per share as at 31 October 2006.

Composition of the fund by value

	%
Venture capital investments	73.9
Listed equity investments**	22.0
Cash and other net assets**	4.1
	100.0

**Retained as a reserve for potential future venture capital investment

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



Chairman's statement

Overview

The year to 31 October 2006 has seen an increase in total return for shareholders, which has risen from 65.0p to 70.7p per share. This uplift is attributable to realised gains and valuation uplifts. The venture capital portfolio has also enjoyed a greater level of stability as the underlying companies have been able to develop their business plans in a more buoyant economic environment.

Progress of the portfolio

During the year, the venture capital portfolio made encouraging progress with gains of £2.2million, largely attributable to the cash sale of Footfall Limited in December 2005 and also including a net unrealised uplift of £176,000 in the value of the current portfolio.

A further £4.8million was invested in the venture capital portfolio: £0.5million was committed to new investments and £4.3million to further funding of existing investments.

The Company holds 37 investments and is currently almost fully invested. The Board continues to monitor the liquidity requirements, including reserving for follow-on investments, to ensure the retention of sufficient liquid assets. It is considered that there is the current capacity to make one further new investment. The situation will continue to be reviewed periodically and as and when exit proceeds are realised.

The listed equity portfolio, which amounted to 22.0% of net assets at the year end, has performed well, generating realised and unrealised gains totalling £1.2million. It is likely that this portfolio will be reduced during the coming year to provide funding for planned further investment in the existing venture capital portfolio.

Net assets and dividends

Before the impact of dividends and share buy-backs, net assets rose by £2.6million over the course of the year. On the same basis, net assets per share rose by 5.3p (8.7%) to 66.4p over the same period, as shown in the table below.

	£'000	Pence per share
Net asset value at 31 October 2005 (restated)	**30,919**	**61.1**
Income	412	0.8
Operating expenses	(1,223)	(2.5)
Net realised gain on investments	2,218	4.5
Net unrealised gain on investments	1,238	2.5
Net assets before dividends and share buy-backs	**33,564**	**66.4**
Dividend paid, net of amounts reinvested	(477)	(1.0)
Share buy-backs	(1,163)	0.4
Net asset value at 31 October 2006	**31,924**	**65.8**

Following the successful Footfall exit, an interim dividend of 1p per share was paid on 1 March 2006. The directors are proposing a final dividend of 1p per share, equivalent to £485,000, which is not reflected in the table above. Subject to approval from shareholders, this dividend would be paid on 15 March 2007.

Shareholders are reminded that the Company operates a dividend reinvestment scheme that shareholders may elect to join at any time. Further details are provided on page 40.

Outlook

There will be an increasing focus on achieving exits from the venture capital portfolio going forward with the objective of generating significant cash proceeds and an uplift in total return for shareholders. A balance will be struck between paying dividends and reinvesting these proceeds, so as to maintain the VCT status of the Company.

The increase in total return over the year has been welcome and we are optimistic of a rising total return over the medium term, although, in the interim, fluctuations in total return are probable.

Robert Wright
Chairman
11 January 2007

Investment manager's report

Introduction

The year has been characterised by relative stability across the unquoted venture capital portfolio with valuations remaining largely unchanged. There has, however, been some volatility in those venture capital investments traded on AIM, where, on account of limited liquidity, price movements can be disproportionate to the news flow.

It has been a very active period for the venture capital portfolio with a further £4.8million invested in five new and 15 follow-on investments. As previously reported, a significant profitable realisation from the portfolio was achieved in December 2005 on the sale of Footfall Limited, which generated a profit of £2million on a cost of £1million.

Venture capital portfolio: valuation changes

As at 31 October 2006, the venture capital portfolio was valued at £23.6million. During the year, there was a modest net uplift in valuations of £176,000 (unquoted investments: gain of £368,000, quoted investments: loss of £192,000).

Unquoted venture capital investments

Within the unquoted portfolio, the investment in Nomad Limited has been revalued back up to cost providing an uplift of £560,000, reflecting the progress made by its card payments processing business. Nomad provides a comprehensive processing service for debit card and prepaid card based transactions and it has developed a significant initial customer base for this service, principally relating to prepaid cards. A further investment of £191,000 was made to help accelerate the growth of this business.

This uplift was offset by a downwards revaluation of Teraview Limited of £108,000 and the £67,000 write off of Global Silicon Limited. Teraview continues to make positive progress but the reduction in the valuation follows the lower pricing of its latest funding round. Although its product was proven, disappointingly, the investment in Global Silicon was written off following its failure to get significant sales traction.

Quoted venture capital investments

During the period there were increases in the valuations of Allergy Therapeutics plc and Avidex Limited.

Allergy Therapeutics, the specialist pharmaceutical company focused on the development of innovative therapies for the treatment and prevention of allergy-related conditions, announced positive trading results in June 2006. The company has made progress internationally with the Pollinex Quattro vaccine platform and has growing commercial product sales and an advanced product pipeline, with two pivotal clinical studies commencing in the current financial year. A further £200,000 was invested as part of a £19million fundraising undertaken by the company in May 2006. The share price rose by 12% during the year and the investment stood at a 30% uplift to original cost as at 31 October 2006.

Avidex was purchased by MediGene AG, a publicly quoted German-American biotechnology company, in September 2006. The acquisition combined Avidex's world class research capabilities with MediGene's strong development and commercial expertise. MediGene's enhanced drug pipeline includes several drug candidates to treat cancer and autoimmune diseases, including Avidex's lead product RhuDex®, and a proprietary technology platform to further fuel its future drug pipeline. By 31 October 2006, MediGene's share price had risen by approximately 34% since the date of the transaction and the value of this investment has been revalued up by £211,000 to just below cost. It is currently anticipated that the MediGene investment will be held for the medium term.

The value of the investment in Celoxica plc fell by £295,000 over the period following the announcement that it would not meet the market's revenue expectations for 2006. However, the company continues to see good medium term growth potential in its accelerated computing business. The investments in Genosis plc and Public Recruitment Group plc fell in value by £89,000 and £133,000 respectively. The fall in value of Genosis, which produces a combined male and female home fertility test, followed the announcement of much slower than anticipated market take-up.

Venture capital portfolio: investment

During the year, a further £4.8million was invested in the venture capital portfolio. This includes five new investments, totalling £0.5million and £4.3million in 15 existing investments.

New Investments

Company	Industry sector	£'000
Cluster Seven Limited	Software	158
Haemostatix Limited	Biotechnology	12
Lectus Therapeutics Limited	Biotechnology	53
Perpetuum Limited	Electronics	93
Vivacta Limited	Diagnostics & devices	195
		511

As reported in the interim accounts, these investments are all early stage and pre-revenue other than the investment in Cluster Seven, which is revenue generating. The initial investments are deliberately small and further investment is to be made on an agreed milestone related basis, the objective being to manage the Company's exposure to these exciting but early stage, and therefore higher risk, investments.

Cluster Seven develops and sells enterprise spreadsheet management software. The company's products provide control over spreadsheets being used in mission critical environments. In the current regulatory environment, the control of spreadsheets is paramount and there is a substantial potential global market for Cluster Seven's products. The company is revenue generating and has built an impressive initial client base, principally in the major financial centres of London and New York.

Haemostatix is a drug discovery company concentrating on the development of an alternative to blood platelet transfusion. The company's product, HaemoPlax™, represents a new type of treatment that is potentially safer and easier to use than the current therapy, with a significant saving in ancillary treatments costs. This was a small initial investment; subsequent to 30 April 2006, Quester VCT 4 together with the investment syndicate provided further planned funding to Haemostatix, which had successfully achieved its initial scientific milestones.

Lectus Therapeutics specialises in the discovery and development of novel drugs (ion channel modulators) for diseases associated with pain management, urinary incontinence and angina, offering important clinical and economic advantages over existing therapies in this growing market. The company raised £8.2million in its first institutional round of venture capital funding which Quester co-led alongside a leading French venture capital firm, Sofinnova, and the two largest Japanese pharmaceutical firms, Takeda and Astellas.

Vivacta is an in vitro medical diagnostics company with novel technology designed to enable rapid, reliable and highly sensitive tests to be performed at the point-of-care. This form of testing allows tests to take place in a doctor's surgery or at the bedside, removing the need for samples to be dispatched to laboratories for analysis. This is a fast growing market sector and the company's core technology is applicable to a wide variety of tests, although initially applied to blood testing. The company recently raised £3million through a funding round led by Quester and is at an interesting stage in the optimisation and commercialisation of its patented piezofilm technology.

Perpetuum produces electromechanical vibration energy harvesting micro-generators to power wireless sensor nodes, eliminating the need for hard wiring or batteries. This technology addresses the growing and substantial market for wireless sensor systems, which are used for a wide range of applications.

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

Investment manager's report (continued)

At the half year, it was reported that no new companies would be added to the venture capital portfolio for the time being, although the situation was to be kept under regular review. It has been agreed that whilst the Company remains close to being fully invested, it does have the capacity to make one further new investment. This will leave adequate liquidity to provide planned further funding to existing investments. The situation will be reviewed periodically and as and when exit proceeds are realised.

Follow-on investments

This was also an active period for follow-on investment; £4.3million was invested in 15 existing companies.

Company	Industry sector	£'000
Advanced Valve Technologies Limited	Industrial products & services	258
Allergy Therapeutics plc	Biotechnology	200
Anthropics Technology Limited	Communications	35
Avidex Limited (prior to purchase by MediGene AG)	Biotechnology	107
Azea Networks, Inc.	Communications	685
Celona Technologies Limited	Software	982
Genosis plc	Diagnostics & devices	21
HTC Healthcare Group plc	Consumer goods & services	43
Identum Limited	Software	893
Nexagent Limited	Software	129
Nomad Software Limited	Software	191
Oxxon Therapeutics Holdings, Inc	Biotechnology	147
Sift Group Limited	Internet	42
Teraview Limited	Diagnostics & devices	197
Workshare Limited	Software	393
		4,323

The largest follow-on investment made during the year was in Celona, the developers of a software technology, which enables Telecoms companies to migrate to new operation and business support systems in a faster and more effective way than traditional methods. The investment will provide additional working capital to cover Celona's product development and sales and marketing. The investment in Identum, specialists in cryptography and information security, will provide additional working capital to develop the product pipeline. The investment in Azea, providers of world-class undersea optical networking solutions, will provide additional working capital to support the sales process in winning further contracts. The business has achieved three flagship installations to date and it is important that the company builds on this success in 2007. Further detail on each of these investments can be found in the 'Ten largest venture capital investments' section of this report commencing on page 8.

Venture capital portfolio: sector spread

The spread of sectors in the ongoing portfolio at 31 October 2006 is provided in the table below. The portfolio remains well diversified.

Industry sector	Percentage of venture capital portfolio at valuation %	Valuation £'000	Number of investments
Software	36.3	8,564	10
Biotechnology	20.4	4,825	8
Communications	14.8	3,489	3
Diagnostics & devices	12.2	2,896	5
Industrial products & services	5.2	1,231	3
Electronics	4.2	986	4
Internet	3.0	698	1
Semiconductors	1.8	429	1
Consumer goods & services	1.8	425	1
Hardware	0.3	69	1
	100.0	**23,612**	**37**

Listed equity portfolio

The listed equity portfolio, which is held as a reserve to meet the funding requirements of the venture capital portfolio, has continued to perform well during the year and has returned an annual total return of 25.1%. It is anticipated that a significant proportion of this portfolio, which accounts for 22.0% of net assets of £31.9million as at 31 October 2006, will be liquidated during the coming year ahead of investment in the unquoted portfolio.

Outlook

The portfolio is now very close to being fully invested and there is limited capacity to make additional new investments. The primary focus is therefore on achieving exits to crystallise returns for shareholders and we remain optimistic about the likely results of this process.

Quester Capital Management Limited
Manager
11 January 2007

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:	37	Other investors:	Accel, Atlas, Lago Ventures	
		Quester Director:	Jamie Brooke	
Funding round:	Series C	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£2,449,000	Turnover:	–	–
Valuation basis:	Cost	Loss before tax:	(£6,460,000)	(£6,462,000)
Cost:	£2,449,000	Retained losses:	(£16,934,000)	(£10,698,000)
Equity held:	7.9%	Net assets:	£32,000	£2,023,000

Business description:	Azea develops and markets undersea optical networking solutions providing telecoms operators with a cost effective way to exploit the full potential of their existing undersea cables through which international traffic is transmitted.
Reason for investment:	The company's technology is designed to upgrade existing undersea cables, extending their capacity and lifespan, while providing a compelling alternative to the cost and risk of laying a new cable network. The demand exists for a new supplier to improve competition and price pressure in the telecoms market.
Progress since investment:	Azea has developed a product offering with both a significant cost saving and performance advantage over the market. The company has an experienced management team and is making good progress in early sales.
Outlook:	The company has successfully completed its first three commercial deployments and has further sales opportunities in the pipeline.

Celona Technologies Limited	www.celona.com			
Location:	London, UK	Date of initial investment:	July 2004	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1996	Quester co-investors:	Quester VCT 5, Quester Venture Partnership	
Employees:	36	Other investors:	–	
		Quester Director:	Simon Acland	
Funding round:	Series A	Latest published results:	31.03.2006	31.03.2005
Current valuation:	£1,648,000	Turnover:	#	#
Valuation basis:	Cost	Profit/(loss) before tax:	#	#
Cost:	£1,648,000	Retained losses:	(£3,048,000)	(£719,000)
Equity held:	13.6%	Net (liabilities)/assets:	(£853,000)	£437,000

Business description:	Celona builds and implements software that is able to accelerate the migration of telecoms data from legacy systems to next generation systems.
Reason for investment:	Legacy systems are a huge burden to telecoms operators and the successful transformation to next-generation systems is crucial. Celona's past systems integration work for large Telcos has enabled it to develop accelerated software which will offers cost savings and increase revenue by speeding up the transformation process. This is a potentially large market which offers growth prospects for Celona.
Progress since investment:	The company has progressed well since Quester's initial investment in 2004 and it has signed some key strategic partnerships.
Outlook:	Celona will continue to focus on developing key strategic partnerships and customer relationships.

Abbreviated accounts produced; information not publicly available.

Workshare Limited	www.workshare.co.uk			
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:	131	Other investors:	–	
		Quester Director:	Simon Acland	
Funding round:	Series B	Latest published results:	31.03.2005	31.03.2004
Current valuation:	£1,632,000	Turnover:	$19,888,000	$17,654,000
Valuation basis:	Pricing of last round	Loss before tax:	($1,008,000)	($4,781,000)
Cost:	£1,532,000	Retained losses:	($6,264,000)	($6,189,000)
Equity held:	6.8%	Net liabilities:	($2,653,000)	($2,578,000)

Business description:	Workshare is an established company that develops and markets products, including Workshare Deltaview, Workshare Professional and Workshare Protect. These products provide secure and compliant production and exchange of business documents, enabling users to assemble and verify document content and record who has viewed documents. There has been a wide take-up by professional services firms and large enterprises.
Reason for investment:	The company has a strong position in a growing market, with opportunities for further growth by diversifying into new markets.
Progress since investment:	The company has progressed well. Some important deals in new vertical markets have been closed and the level of business transacted through the website is accelerating. In December 2006, it successfully raised further funding from a syndicate of new and existing investors.
Outlook:	Workshare will continue to focus on reinforcing and broadening its position as the leading provider of outbound content security software applications for professionals.

Nexagent Limited	www.nexagent.com			
Location:	Reading, UK	Date of initial investment:	February 2002	
Status:	Unquoted	Lead investor:	Atlas, Benchmark	
Founded:	2000	Quester co-investors:	Quester Venture Partnership	
Employees:	50	Other investors:	Lago Ventures, Apax	
		Quester Director:	Simon Acland	
Funding round:	Series B	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,587,000	Turnover:	£743,000	£300,000
Valuation basis:	Pricing of last round	Loss before tax:	(£5,987,000)	(6,302,000)
Cost:	£1,666,000	Retained losses:	(26,561,000)	(£21,148,000)
Equity held:	5.7%	Net assets/(liabilities):	£3,949,000	(£2,365,000)

Business description:	Nexagent provides innovative centralised management technology 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 automates and accelerates the creation 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's technology is now being used as a key part of a major systems integrator's global network. The sales pipeline is progressing.
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.

Ten largest venture capital investments (continued)

By valuation

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:	43	Other investors:	Prelude, Top Technology, Dow Ventures	
		Quester Director:	Jonathan Gee	
Funding round:	Series B	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,556,000	Turnover:	£289,000	£38,000
Valuation basis:	Pricing of last round	Loss before tax:	(£3,571,000)	(£1,516.000)
Cost:	£1,339,000	Retained losses:	(£5,276,000)	(£1,795,000)
Equity held:	9.3%	Net assets:	£4,873,000	£1,245,000

Business description: Oxford Immunotec develops 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.

Reason for investment: TB is a resurgent disease with a major unmet medical need for an effective diagnostic tool. T-SPOT™.TB has significant benefits over the traditional TB skin test, which is over 100 years old, dramatically improving the speed and accuracy with which TB can be identified. The market for TB diagnostic kits is estimated to be worth up to £500million worldwide and the investment will enable Oxford Immunotec to capitalise on this market opportunity.

Progress since investment: The TB test has approval for use in Europe and is already being used by hospitals and clinics throughout the EU and beyond. There has been a favourable first hearing at the Food and Drug Administration and the grant of a first US patent on the company's technology.

Outlook: The company will continue to build sales in Europe with plans for market entry in the US in 2007 and follow-on products in early development.

Nomad Software Limited	www.nomadsoft.com			
Location:	London, UK	Date of initial investment:	March 2000	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1995	Quester co-investors:	Quester VCT 5, Quester Venture Partnership	
Employees:	47	Other investors:	Foresight, Meondale	
		Quester Director:	Henry Sallitt	
Funding round:	Expansion	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,402,000	Turnover:	£4,180,000	£3,651,000
Valuation basis:	Cost	Loss before tax:	(£1,297,000)	(£1,579,000)
Cost:	£1,402,000	Retained losses:	(£10,556,000)	(£9,259,000)
Equity held:	11.6%	Net liabilities:	(2,779,000)	(£1,483,000)

Business description: Nomad is a provider of card payments processing software and services in Europe, with a focus on debit card and pre-paid transactions.

Reason for investment: Nomad is well placed to capitalise on a period of rapid change as retail banks review card based payment systems in order to offer products with greater flexibility, functionality and security, based on chipcards and mobile payments as well as an increasing range of opportunities arising in the UK pre-paid card market, which is predicted to follow the expansion of the US market.

Progress since investment: The outsourced debit card and pre-paid card processing business is growing strongly. The company raised a further £1.25million in 2006 and these funds will be used to exploit the pre-paid card boom in the UK. The company is developing a customer base from a wide range of sectors, including major shopping centres, publishers and large corporates.

Outlook: Nomad will focus on exploiting its market position as a processor of debit and prepaid card transactions with the expansion of its sales and marketing.

Identum Limited	www.identum.com			
Location:	Maidenhead, UK	Date of initial investment:	September 2004	
Status:	Unquoted	Lead investor:	Quester	
Founded:	2003	Quester co-investors:	Quester VCT 5, Quester Venture Partnership, Sulis Seedcorn Fund	
Employees:	15			
		Other investors:	–	
		Quester Director:	Jamie Brooke	
Funding round:	Series A	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,159,000	Turnover:	#	#
Valuation basis:	Cost	Loss before tax:	#	#
Cost:	£1,159,000	Retained losses:	(£1,555,000)	(£520,000)
Equity held:	6.7%	Net (liabilities)/assets:	(£590,000)	£220,000

Business description: Identum has developed products that allow the encryption of emails, ensuring the security and privacy of their contents. Its flagship product is called Private Post.

Reason for investment: The growing market for secure communication, as a result of regulation and compliance requirements, is driving demand for email encryption. Identum is well placed to take advantage of this market opportunity, with an email encryption solution offering significant cost and time savings over competitor offerings whilst satisfying the new regulatory demands on user organisations.

Progress since investment: Identum continues to make progress following the launch of Private Post. Activity levels are increasing and Postmaster General, a new toolkit version of Private Post for the security appliance industry, has been launched.

Outlook: The company's focus is to make initial direct sales and broaden its distribution network to sell to enterprises.

MediGene AG	www.medigene.com			
Location:	Germany	Date of initial investment:	July 2002 (Avidex Limited)	
Status:	Quoted	Lead investor:	n/a	
Founded:	1994	Quester co-investors:	Quester VCT, Quester VCT 5, Quester Venture Partnership, Isis College Fund	
Employees:	165			
		Other investors:	n/a	
		Quester Director:	–	
Funding round:	n/a	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,133,000	Turnover:	€19,682,000	€13,138,000
Valuation basis:	Bid Price	Loss before tax:	(€12,044,000)	(€12,665,000)
Cost:	£1,251,000	Retained losses:	(€225,710,000)	(€213,665,000)
Equity held:	0.7%	Net assets:	€51,777,000	€61,712,000

Business description: MediGene AG is a publicly quoted biotechnology company with its headquarters in Germany, and subsidiaries in the UK, and the USA. The company's focus is on the development of novel approaches in anti cancer and autoimmune therapies.

Reason for investment: Quester VCT 4 received shares in MediGene in September 2006 on its acquisition of Avidex Limited, in which Quester originally invested in 2002.

Progress since investment: MediGene's acquisition combined Avidex's research capabilities with MediGene's strong development and commercial expertise. MediGene has two approved treatments which are generating revenues and has enhanced its pipeline of future products through the acquisition of Avidex, including the lead product RhuDex®.

Outlook: The combination of Avidex's research capabilities with MediGene's strong development and commercial expertise has created a biotech company with promising potential.

Abbreviated accounts produced; information not publicly available.

Ten largest venture capital investments (continued)

By valuation

Advanced Valve Technologies Limited		www.advalve.com		
Location:	Kent, UK	Date of initial investment:	June 2003	
Status:	Unquoted	Lead investor:	Quester	
Founded:	1998	Quester co-investors:	Quester VCT, Quester VCT 5	
Employees:	18	Other investors:	–	
		Quester Director:	Andrew Holmes	
Funding round:	Series A	Latest published results:	31.12.2005	31.12.2004
Current valuation:	£1,032,000	Turnover:	£238,000	£226,000
Valuation basis:	Cost less provision	Loss before tax:	(£1,205,000)	(£960,000)
Cost:	£1,730,000	Retained losses:	(£6,218,000)	(£5,082,000)
Equity held:	30.6%	Net (liabilities)/assets:	(£20,000)	£1,053,000

Business description:	Advanced Valve Technologies makes valves that would typically be used to meet the demands of harsh or extreme environments found in the chemical, offshore & marine markets, such as in ships or on oil rigs. It is a leader in the application of reinforced composite materials resulting in superior resistance to corrosion and considerable weight saving.
Reason for investment:	There is a gap in the market for high performance composite material valves where high pressure performance is demanded. AVT has the capability to meet this demand.
Progress since investment:	AVT has developed a partnership agreement with a leading valve player, providing technological development and access to wider distribution arrangements.
Outlook:	The company will continue to focus on increasing sales with product improvements which are currently in process and which are already showing encouraging results.

Lorantis Holdings Limited	www.celldextherapeutics.com			
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, JP Morgan	
		Quester Director:	–	
Funding round:	Series C	Latest published results:	11.10.2005	31.12.2004
Current valuation:	£1,025,000	Turnover:	–	–
Valuation basis:	Pricing of last round	Loss before tax:	(£6,821,000)	(£7,151,000)
Cost:	£1,400,000	Retained losses:	(£27,263,000)	(£21,007,000)
Equity held:	2.7%	Net liabilities:	(£26,388,000)	(£20,131,000)

Business description:	A biotechnology company focused on the use of therapeutic agents for the treatment of cancer, infectious diseases and immune system disorders through a novel 'active immunisation' approach.
Reason for investment:	Autoimmune diseases like diabetes and arthritis are major health problems and are becoming more acute as the population ages. The investment will enable the company to capitalise on the opportunity to develop a range of therapeutic products targeting these diseases.
Progress since investment:	Following the acquisition of the company's business by Celldex Therapeutics Inc, the pre-clinical trial program is continuing to make positive progress and Phase II studies of its most advanced product, a promising vaccine candidate for therapy of chronic hepatitis B, are underway.
Outlook:	This is a medium to long term investment based on the future success of scientific development. The company will look to secure further funding in the next year.

Fund summary as at 31 October 2006

	Industry Sector	Original Cost £'000	Valuation £'000	% equity held	% of fund by value
Quoted venture capital investments					
Allergy Therapeutics plc	Biotechnology	700	911	1.1%	2.9%
Celoxica Holdings plc	Software	1,315	363	3.6%	1.1%
Cyclacel Pharmaceuticals, Inc.	Biotechnology	1,000	235	0.6%	0.7%
Genosis plc	Diagnostics & devices	111	22	0.7%	0.1%
MediGene AG*	Biotechnology	1,251	1,133	0.7%	3.5%
Polaron plc	Industrial products & services	250	122	1.2%	0.4%
Portrait Software plc	Software	1,130	392	2.7%	1.2%
Public Recruitment Group plc	Industrial products & services	250	77	0.8%	0.2%
Quadnetics Group plc	Electronics	143	151	0.5%	0.5%
Total quoted venture capital investments		**6,150**	**3,406**		**10.6%**
Unquoted venture capital investments					
Advanced Valve Technologies Limited	Industrial products & services	1,730	1,032	30.6%	3.2%
Antenova Limited	Communications	1,254	1,005	5.4%	3.1%
Anthropics Technology Limited	Communications	1,105	35	7.0%	0.1%
Arithmatica Limited	Semiconductors	1,486	429	13.7%	1.3%
Azea Networks, Inc.	Communications	2,449	2,449	7.9%	7.7%
Celona Technologies Limited	Software	1,648	1,648	13.6%	5.2%
Cluster Seven Limited	Software	158	158	2.0%	0.5%
De Novo Pharmaceuticals Limited	Diagnostics & devices	803	176	3.0%	0.6%
Elateral Holdings Limited	Software	1,155	155	13.7%	0.5%
Global Silicon Limited	Semiconductors	67	–	0.8%	0.0%
Haemostatix Limited	Biotechnology	11	11	0.6%	0.0%
HTC Healthcare Group plc	Consumer goods & services	714	425	8.7%	1.3%
Identum Limited	Software	1,159	1,159	6.7%	3.6%
Lectus Therapeutics Limited	Biotechnology	53	53	1.1%	0.2%
Level Four Software Limited	Software	68	68	1.2%	0.2%
Lorantis Holdings Limited	Biotechnology	1,400	1,025	2.7%	3.2%
Mesophotonics Limited	Electronics	893	670	7.2%	2.1%
Nexagent Limited	Software	1,666	1,587	5.7%	5.0%
Nomad Software Limited	Software	1,402	1,402	11.6%	4.4%
Opsys Management Limited	Electronics	1,038	72	3.5%	0.2%
Oxford Immunotec Limited	Diagnostics & devices	1,339	1,556	9.3%	4.9%
Oxxon Therapeutics Holdings, Inc	Biotechnology	1,130	632	3.5%	2.0%
Pelikon Limited	Hardware	69	69	0.5%	0.2%
Perpetuum Limited	Electronics	93	93	1.7%	0.3%
Sift Group Limited	Internet	917	698	4.5%	2.2%
Teraview Limited	Diagnostics & devices	947	947	5.4%	3.0%
Vivacta Limited	Diagnostics & devices	195	195	3.0%	0.6%
Workshare Limited	Software	1,532	1,632	6.8%	5.1%
Xention Discovery Limited	Biotechnology	750	825	5.1%	2.6%
Total unquoted venture capital investments		**27,231**	**20,206**		**63.3%**
Total venture capital investments		**33,381**	**23,612**		**73.9%**
Listed equity investments		5,331	7,012		22.0%
Total investments		**38,712**	**30,624**		**95.9%**
Cash and other net assets		1,300	1,300		4.1%
Net assets		**40,012**	**31,924**		**100.0%**

*Shares in MediGene AG were received by Quester VCT 4 plc on MediGene's purchase of Avidex Limited on 29 September 2006.

Directors

Robert Wright (60), 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 director of Wizzair Limited, an airline based in central Europe deploying the low-cost air carrier model.

Rudy Burger (48) 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. Rudy is also on Motorola's Research Board.

Andrew Holmes (62), the Executive Chairman of Quester, founded Quester in 1984, prior to which he spent eight years with 3i plc, where he managed the 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.

Alan Lamb (57) 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 (53) 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 Invesco Perpetual UK Smaller Companies Investment Trust plc.

All the directors are non-executive and Robert Wright, Alan Lamb and Rudy Burger are independent of the Manager and comprise the Audit Committee. Alan Lamb offers himself for re-election at the Company's Annual General Meeting to be held on 6 March 2007. Further details are provided on page 33.

Directors' report incorporating the business review

The directors present their report and the audited financial statements for the year ended 31 October 2006.

Activities and status

The principal activity of the Company during the year was the making of equity investments, mainly in unquoted companies. As at 31 October 2006, the Company had been granted provisional approval by the HM Revenue and Customs as a venture capital trust in accordance with Section 842AA of the Income and Corporation Taxes Act 1988. In the opinion of the directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval. The Company was not at any time up to the date of this report a close company within the meaning of Section 414 of that Act.

During 2005, the directors revoked the Company's investment company status under section 266(3) of the Companies Act 1985, to give it trading company status. This change was undertaken to allow the Company to pay a special interim dividend to shareholders out of capital gains made by the Company.

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.

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.

New UK accounting standards

During the year under review, the Company was required to adopt a number of new UK accounting standards (most notably FRS 21, FRS 25 and FRS 26). Accordingly, these accounting standards have been applied in the preparation of these financial statements. In adopting the new standards, the Company is required to restate certain brought forward balances. Further details are provided in note 1 to the financial statements.

Results and dividend

The net gain attributable to shareholders for the year ended 31 October 2006 was £2,645,000. The Board recommends the payment of a final dividend of 1p per share in respect of the year. An earlier interim dividend of 1p per share was paid on 1 March 2006.

As at 31 October 2006, the Company had accumulated unrealised capital losses of £4,781,000 and retained a positive balance on the profit and loss account of £2,134,000.

The mid-market price of Quester VCT 4 plc's shares as at close of business on 31 October 2006 was 54.0p per share. The mid-market price ranged from 54.0p to 60.0p during the year.

Corporate governance

A report on corporate governance is set out on pages 33 to 34. The directors' remuneration report is set out on page 35.

Issue and buy-back of shares

During the year 2,135,181 ordinary shares of 1p each, representing 4% of the issued share capital, were bought in by the Company for cancellation at a total cost of £1,163,000. The impact on the net asset value was to increase it by 0.4p per share. The purpose of the share buy backs is to offer the opportunity for current shareholders to sell shares in an otherwise illiquid market. The Company may be able to buy-back limited volumes of its shares from time to time. However, its ability to do so, is constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA.

Directors' report incorporating the business review (continued)

Directors

The directors of the Company who held office in the year and at the date of this report and their interests in the ordinary shares of 1p each of the Company as at 31 October 2006 and as at the date of this report were as follows:

	2006	2005
RA Wright (Chairman)	**100,000**	100,000
RE Burger (appointed 19 December 2005)	**–**	–*
APG Holmes	**100,180**	100,180
APM Lamb	**21,308**	20,667
JA Spooner	**100,180**	100,180

* At date of appointment

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 in nominal amount of the redeemable loan notes and JA Spooner and his immediate family hold, £18,000 nominal of the redeemable loan notes. These are the loan notes referred to in note 12 of the financial statements. A further £12,500 nominal 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.

Save for the redeemable loan notes referred to above and the Management Agreement referred to on page 17, 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 18 to the financial statements.

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.

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 2006, are set out in note 3 to 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

Richard Drover is the Company's company secretary.

Principal risks and how the Board seeks to mitigate them

The Company's assets consist principally of unquoted equities; its main area of risk therefore relates to investment selection and the subsequent performance of the underlying businesses themselves. As is the case with all specialist industries, risks are inherent in technology companies. The specific key risks faced by the Company, together with the Board's mitigation approach, in respect of operational and regulatory risks are as below. Information in respect of risks associated with financial instruments held by the Company is provided in note 17 to the financial statements commencing on page 30.

Objective, strategy and investment performance

The Board regularly reviews the investment mandate and the long-term investment strategy in relation to market and economic conditions and the operation of the Company's peers. The Board receives regular reporting allowing it to monitor the Company's investment performance and its compliance with the investment guidelines. The Manager regularly presents to the Board and quarterly monitoring reports covering the performance of the venture capital investments are circulated to the Board and considered at the formal quarterly Board meetings. The rationale for individual investment selection is documented prior to the making of an investment. This documentation is also circulated to the Board.

Regulatory – compliance with the Venture Capital Trust rules

A breach of the Venture Capital Trust rules could result in HM Revenue and Customs withdrawing the Company's VCT approval. If this approval were to be withdrawn, the Company would lose its VCT status and all tax reliefs, including those available to shareholders, are likely to be cancelled, some possibly with retrospective effect. The Manager frequently reviews the level of compliance with the Venture Capital Trust rules and other financial regulatory requirements on a daily basis. This information is formally reported to the Board on a regular basis.

Operational

All significant transactions and income and expenditure are reported to the Board. The Board regularly considers all operational risks and the measures in place to control them. The Board ensures that satisfactory assurances are received from the Manager. The Manager produces quarterly reports for review by the Company's Audit Committee and representatives of the Manager are available to attend meetings in person if required.

Performance Measurement

While the Board considers total return to be the key performance indicator, it is aware that share price performance is the most important factor to many of the Company's shareholders. Share price performance is linked to movements in net asset value, however, the overriding factor affecting share price is the very limited secondary market for VCT shares generally and, as such, share price will typically be at a discount to net asset value. The Board undertakes a regular review of the level of any discount and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing.

It is the responsibility of the Manager to seek the best investments and to manage the portfolio in the most beneficial way to achieve the highest returns for shareholders. For the year under review, the

Directors' report incorporating the business review (continued)

performance of the Company's investments is detailed in the Investment Manager's report commencing on page 4. The Board reviews performance on a continuous basis. Each Director receives a monthly report from the Manager and also a quarterly investment monitoring report. The net asset value of the Company's shares is announced regularly via a regulatory news service, see page 40 for details.

As mentioned above, the key performance indicator is considered to be the measure of total return to shareholders, which is stated on page 1 of this annual report. This is a combination of net asset value and amounts returned to shareholders by way of dividend. This measure does not reflect the tax benefits available to shareholders at the time of their initial investment. Whilst it is appropriate to consider the performance of the Company relative to its peers, which is a review undertaken by the Board, a direct comparison is not always appropriate or relevant given the Company's niche investment focus. For the same reason, it is also the case that there are no particularly relevant indices with which to compare the performance of the Company. However, for information purposes only, performance relative to various indices is also set out on page 1.

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 2006 there were 59 days' billing from the suppliers of services outstanding (2005: 58 days).

Substantial shareholdings

As at 31 October 2006 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.

Audit information

The Directors who held office at the date of approval of the Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual general meeting

The Annual General Meeting will be held at Mary Sumner House, 24 Tufton Street, London SW1P 3RB at 11.00 a.m. on 6 March 2007.

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 declaration of a final dividend, the re-election of Alan Lamb as a director and the re-appointment of the auditor, the following resolutions are proposed:

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 51,497,335, 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 £48,502.66 (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 4,850,266 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 best interests of the Company's shareholders.

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

RSM Robson Rhodes LLP is willing to continue in office and a resolution to re-appoint it and to authorise the directors to fix its remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

RJ Drover
Secretary
11 January 2007

Profit and loss account

For the year ended 31 October 2006

	Note	2006 £'000	2005 Restated £'000
Gain/(loss) on fair value through profit or loss on investments	9(c)	**3,456**	(2,214)
Income	2	**412**	437
Investment management fee	3	**(800)**	(847)
Other expenses	4	**(418)**	(324)
Profit/(loss) on operating activities		**2,650**	(2,948)
Interest payable on loan notes	12	**(5)**	(5)
Profit/(loss) on ordinary activities before taxation		**2,645**	(2,953)
Tax on profit/(loss) on ordinary activities	6	**–**	–
Profit/(loss) on ordinary activities after taxation		**2,645**	(2,953)
Basic earnings per share	8	**5.3p**	(5.7)p

All items in the above statement derive from continuing operations.

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

Note of historical cost profits and losses

For the year ended 31 October 2006

	Note	2006 £'000	2005 Restated £'000
Reported profit/(loss) on ordinary activities before taxation		**2,645**	(2,953)
Realisation of prior years' net unrealised gains/(losses) on investments	14	**294**	(3,722)
Adjustment for unrealised (profit)/loss on revaluation of investments	9(c)	**(1,238)**	1,810
Historical cost profit/(loss) on ordinary activities before taxation		**1,701**	(4,865)
Historical cost profit/(loss) for the period		**1,701**	(4,865)

The accompanying notes are an integral part of these statements.

The prior year figures are restated. Details are provided in note 1 on page 24.

Balance sheet
As at 31 October 2006

	Note	2006 £'000	2005 Restated £'000
Fixed assets			
Investments at fair value through profit or loss	9(a)	**30,624**	25,401
Current assets			
Debtors	10	**148**	337
Cash at bank		**1,715**	5,641
		1,863	5,978
Creditors: amounts falling due within one year	11	**(463)**	(360)
Net current assets		**1,400**	5,618
Creditors: amounts falling due in over one year	12	**(100)**	(100)
Net assets		**31,924**	30,919
Capital and reserves			
Called-up equity share capital	13	**485**	506
Capital redemption reserve	14	**47**	26
Share premium account	14	**309**	285
Special reserve	14	**33,730**	34,969
Fair value reserve	14	**(4,781)**	(5,725)
Profit and loss account	14	**2,134**	858
Total equity shareholders' funds		**31,924**	30,919
Net asset value per share	15	**65.8p**	61.1p

The financial statements on pages 20 to 32 were approved by the directors on 11 January 2007 and were 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 2006

	Note	2006 £'000	2005 £'000
Cash outflow from operating activities	16	**(783)**	(494)
Financial investment			
Purchase of venture capital investments	9(b)	**(4,834)**	(5,194)
Purchase of listed equities	9(b)	**(1,476)**	(1,044)
Sale/redemption of venture capital investments	9(b)	**3,091**	771
Sale/redemption of listed equities	9(b)	**1,410**	3,643
Recoveries made from venture capital investments previously written off	9(c)	**42**	142
Total net financial investment		**(1,767)**	(1,682)
Equity dividends paid		**(477)**	(453)
Financing			
Buy-back of ordinary shares		**(899)**	(915)
Total financing		**(899)**	(915)
Decrease in cash for the period		**(3,926)**	(3,544)
Reconciliation of net cash flow to movement in net funds			
Decrease in cash for the period		**(3,926)**	(3,544)
Net funds at the start of the period		**5,641**	9,185
Net funds at the end of the period		**1,715**	5,641

The accompanying notes are an integral part of this statement.

Reconciliation of movements in shareholders' funds
For the year ended 31 October 2006

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
At 1 November 2005	506	26	285	34,969	(5,652)	858	30,992
Effect of valuing listed investments at bid price	–	–	–	–	(73)	–	(73)
At 1 November 2005 (Restated)	506	26	285	34,969	(5,725)	858	30,919
Shares issued under the Dividend Reinvestment Scheme	–	–	24	–	–	–	24
Shares purchased for cancellation	(21)	21	–	(1,163)	–	–	(1,163)
Realisation of prior years' net unrealised gains on investments	–	–	–	–	(294)	294	–
Transfer from special reserve to profit and loss account	–	–	–	(76)	–	76	–
Transfer of net unrealised gain on revaluation of investments to fair value reserve	–	–	–	–	1,238	(1,238)	–
Profit for the year	–	–	–	–	–	2,645	2,645
Interim dividend paid	–	–	–	–	–	(501)	(501)
At 31 October 2006	**485**	**47**	**309**	**33,730**	**(4,781)**	**2,134**	**31,924**

The accompanying notes are an integral part of this statement. See note 14 for further information on reserves.

Notes to the financial statements

1 Accounting policies

The Annual Report has been prepared using new accounting standards, which have been issued to begin the process of converging UK standards with International Financial Reporting Standards ('IFRS'). The relevant standards are FRS 21: Events After the Balance Sheet Date, FRS 22: Earnings Per Share, FRS 23: The Effects of Changes in Foreign Exchange Rates, FRS 25: Financial Instruments: Disclosure and Presentation, FRS 26: Financial Instruments: Measurement and FRS 28: Corresponding Amounts. These standards have been adopted by the Company with effect from 1 November 2005 and the prior year comparatives have been restated accordingly, resulting in an increase of £1,810,000 in the loss before tax reported on the face of the Profit and Loss account and a decrease of £73,000 in the value of the Company's net assets as at 31 October 2005, as detailed below.

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

Basis of accounting

These financial statements have been prepared under the historical cost convention, modified to include the valuation at fair value of fixed asset investments, and in accordance with applicable UK accounting policies.

Investments

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

Accordingly, upon initial recognition (using trade date accounting) the investments are designated by the Company as 'at fair value through profit or loss', and any unrealised increase or decrease in value is now recognised through the face of the profit and loss account instead of the previous revaluation reserve. The effect of this change in accounting policy has been to increase profit on ordinary activities after tax by £1,238,000 (2005: increase loss by £1,810,000) although the overall impact is net asset value neutral on account of a subsequent transfer of any such unrealised or realised increase or decrease in value from the Profit and Loss account to the Fair Value reserves. This transfer is effected as a movement on reserves. Fair Value, which is initially taken to be an investment's cost, is measured as follows:

- UK listed and AIM-traded investments are valued at their bid prices at the close of the period as issued by the London Stock Exchange; investments listed overseas are valued at bid prices (where a bid price is available) or otherwise at fair value based on published price quotations. Previously all listed investments were valued with reference to closing middle market prices. The effect of this change in accounting policy on the net asset value of the Company as at 31 October 2006 has been to reduce it by £135,000 (2005: reduction of £73,000).
- unquoted investments, where there is not an active market, are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the balance sheet date. Such investments are valued in accordance with the International Private Equity and Venture Capital Valuation guidelines. Primary indicators of fair value are derived from earnings multiples, prices of recent investment or from net assets. In situations where fair value cannot be reliably measured, the investment in question is reported at its carrying value at the previous reporting date, as the best estimate of fair value, unless there is evidence that the investment has since then been impaired. In such a case the carrying value is reduced to reflect the estimated extent of the impairment. Examples of events or changes that could indicate such a diminution include:
    - the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;
    - a significant adverse change either in the investee company's business or in the technological, market, economic, legal or regulatory environment in which the business operates; or
    - market conditions have deteriorated, which may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors.

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

Gains and losses on Investments

When the Company revalues its investments during an accounting period, any gains or losses are recognised in the Profit and Loss account within 'Gains/(losses) on fair value through profit or loss on investments'. Any gains or losses that are not considered by the directors to be permanent are subsequently credited/charged to the Fair Value reserve as a movement on reserves. When an investment is sold, or written off, any amount held on the Fair Value 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 to allow a full offset.

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 and are charged wholly to the Profit and Loss account. Any costs associated with the issue of shares are charged to the Share Premium account. Any costs associated with the buy-back of shares are charged to the Special Reserve.

In addition, transaction costs incurred on the purchase and sale of investments, totalling £14,000 for 2006, are now charged through the Profit and Loss account in the period in which they are incurred instead of being included within the cost of the investment or deducted from the proceeds of a sale. This has no impact on the net asset value of the Company but impacts the reported unrealised and realised gains or losses on investments. The comparative figures have not been restated, as the impact is immaterial.

Taxation
Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the year. The Company has not provided for deferred tax on any capital gains/losses arising on the revaluation or disposal of investments as these items are not subject to tax whilst the Company maintains its venture capital status. The Company intends to continue to meet the conditions required for it to continue its approved venture capital trust status for the foreseeable future.

Foreign exchange
The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than Sterling, are recorded at the exchange rate ruling on the transaction date. At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Exchange differences arising on settlement of monetary items and from retranslating at the balance sheet date of investments and other financial instruments measured at fair value through profit or loss, and other monetary items, are included in the Profit and Loss account. Exchange differences relating to investments and other financial instruments measured at fair value are subsequently included in the transfer to the Fair Value reserve.

Dividends
Under FRS 21 dividends payable by the Company should not be accrued in the accounts unless they have been approved before the Balance Sheet date. Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they are paid, or have been approved by shareholders in the case of a final dividend and become a liability of the Company.

2 Income

	2006 £'000	2005 £'000
Dividend income		
– Listed companies	**236**	210
Interest receivable		
– Fixed interest securities	**–**	2
– Loans to unquoted companies	**–**	19
– Bank deposits	**41**	52
Other income from shares and securities	**135**	154
	412	437

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.

Notes to the financial statements (continued)

A charge of £800,000 (2005: £847,000) in respect of the management fee payable to QCML was made during the year together with irrecoverable VAT of £123,000 (2005: £127,000). The fee, which is calculated monthly and is payable in advance, was levied at a rate of 2.5% (2005: 2.5%) on the Company's net assets during the financial year ended 31 October 2006.

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 was entitled to a fee of £56,000 for the year ended 31 October 2006 (2005: £54,000). This fee is linked to the movement in the RPI and 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

	2006 £'000	2005 £'000
Administrative and secretarial services	**56**	54
Directors' remuneration (note 5)	**37**	33
Auditor's remuneration		
– Fees payable to the Company's auditor for the audit of the annual financial statements	**14**	14
– Fees payable to the Company's auditor and its associates for other services relating to taxation	**6**	6
Legal and professional expenses*	**40**	8
Insurance	**13**	13
UKLA, LSE and registrar's fees	**24**	19
Irrecoverable VAT	**162**	150
Transaction costs	**14**	–
Printing and postage	**21**	13
Other expenses	**31**	14
	418	324

*Professional expenses for 2006 include costs of £10,000 in respect of the search and selection of a replacement independent non-executive director.

5 Directors' remuneration

	2006 £'000	2005 £'000
Fees paid to directors	**3**	9
Amounts paid to third parties, excluding VAT, in consideration for the services of directors	**34**	24
	37	33

The total fees paid or payable in respect of individual directors for the period is detailed in the Directors' Remuneration Report on page 35.

6 Tax on ordinary activities

	2006 £'000	2005 Restated £'000
Corporation tax	**–**	–

Reconciliation of profit/(loss) on ordinary activities to tax thereon

	2006 £'000	2005 Restated £'000
Profit/(loss) on ordinary activities before tax	**2,645**	(2,953)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005: 30%)	**794**	(886)
Effects of:		
(Gain)/loss on investments	**(1,037)**	664
Loss on operating activities	**243**	222
	–	–

The Company has excess trading losses of £3,600,000 (2005: £2,612,000) that are available to offset against future profits. A deferred tax asset of £1,080,000 (2005: £784,000) has not been recognised in respect of those losses and will be recoverable only to the extent that the Company has sufficient future taxable profits.

7 Dividends paid

	2006 £'000	2005 £'000
Interim dividend: 1p per share paid 1 March 2006 (2005: 1p paid 1 April 2005)	**501**	521

A final dividend of 1p per share has been proposed and is payable on 15 March 2007 subject to approval by shareholders. Under new accounting standards, this dividend is not provided for in these accounts and is not reflected in the table above.

8 Earnings per share

The gain per share of 5.3p (2005 restated: loss 5.7p) is based on the gain on ordinary activities after tax of £2,645,000 (2005 restated: loss £2,953,000) and on ordinary shares of 49,861,329 (2005: 51,547,440), being the weighted average number of ordinary shares in issue during the year.

9 Investments at fair value through profit or loss

9(a) Summary of investments

	2006 £'000	2005 Restated £'000
Venture capital investments	**23,612**	19,667
Listed equity investments	**7,012**	5,734
	30,624	25,401

Notes to the financial statements (continued)

9(b) Movements in investments

	Venture capital investments £'000	Listed equity investments £'000	Total £'000
Cost at 1 November 2005	26,359	4,767	31,126
Unrealised net (loss)/gain	(6,623)	971	(5,652)
Effect of valuing listed investments at bid price	(69)	(4)	(73)
Valuation at 1 November 2005 (restated)	19,667	5,734	25,401
Movements in the year:			
Purchases at cost	4,834	1,476	6,310
Disposals			
– proceeds	(3,091)	(1,410)	(4,501)
– realised net gains on disposal	2,026	150	2,176
Unrealised profit on revaluation of investments	176	1,062	1,238
Valuation at 31 October 2006	**23,612**	**7,012**	**30,624**
Cost at 31 October 2006	30,074	5,331	35,405
Unrealised net (loss)/profit at 31 October 2006	(6,462)	1,681	(4,781)
	23,612	**7,012**	**30,624**

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. Cost, as stated in this note, will therefore differ from the original cost of investment, as reported in the fund summary on page 13.

9(c) Gain/(loss) on fair value through profit or loss on investments

The overall gain/(loss) on investments disclosed in the Profit and Loss account is analysed as follows:

	2006 £'000	2005 Restated £'000
Realised net gains on disposals	**2,176**	521
Write-off of investments	**–**	(946)
Recoveries made in respect of investments previously written off	**42**	142
Write down of debtors (see note 10)	**–**	(121)
Unrealised profit/(loss) on revaluation of investments	**1,238**	(1,810)
	3,456	(2,214)

'Realised net gains on disposal' represents the difference between proceeds received and the carrying values of those investments sold during the year.

10 Debtors

	2006 £'000	2005 £'000
Debtors: amounts falling due in over one year	**–**	138
Prepayments and accrued income	**10**	28
Other debtors	**138**	171
	148	337

Other debtors and debtors falling due in over one year represent loan notes issued in connection with the sale of the investment in CDC Solutions Limited in December 2003. The loan notes receivable amount to £138,000 (2005: £278,000, of which £138,000 was falling due in over one year). 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 a year. This earnout was written down to £nil in 2005. In 2005, other debtors include an amount receivable in respect of Blazephototonics Limited of £32,000.

11 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Accruals	**463**	360

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 (2005: £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. In line with FRS 26, this right to additional interest and premium on redemption is an embedded derivative that for accounting purposes is separated from the redeemable loan notes. This embedded derivative has been accounted for as a financial liability at fair value through the Profit and Loss account and is valued at £nil (2005: £nil).

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.

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

	2006 £'000	2005 £'000
Authorised:		
100,000,000 (2005: 100,000,000) ordinary shares of 1p	**1,000**	1,000
Allotted, issued and fully paid:		
48,502,665 (2005: 50,596,419) ordinary shares of 1p	**485**	506

The Company bought back 2,135,181 ordinary shares with a nominal value of £21,352, representing 4% of the issued share capital, at a cost of £1,163,000. These shares were subsequently cancelled.

During the year the Company issued 41,427 ordinary shares under the terms of the Dividend Reinvestment Scheme with an aggregate nominal value of £414 for a net consideration of £24,000.

Notes to the financial statements (continued)

14 Reserves

	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Fair value reserve £'000	Profit and loss account £'000
At 1 November 2005	26	285	34,969	(5,652)	858
Effect of valuing listed investments at bid price	–	–	–	(73)	–
At 1 November 2005 (restated)	26	285	34,969	(5,725)	858
Shares issued under the Dividend Reinvestment Scheme	–	24	–	–	–
Shares purchased for cancellation	21	–	(1,163)	–	–
Realisation of prior years' net unrealised gains on investments	–	–	–	(294)	294
Transfer from special reserve to profit and loss account	–	–	(76)	–	76
Transfer of net unrealised gain on revaluation of investments to fair value reserve	–	–	–	1,238	(1,238)
Profit for the year	–	–	–	–	2,645
Interim dividend paid (note 7)	–	–	–	–	(501)
At 31 October 2006	**47**	**309**	**33,730**	**(4,781)**	**2,134**

The Special Reserve is a distributable reserve that was created following the cancellation of the Share Premium account. 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 £76,000 has been made from the Special Reserve to the Profit and Loss account, representing the total realised losses on investments incurred in the year ended 31 October 2006.

15 Net asset value per share

The net asset value per share as at 31 October 2006 of 65.8p (2005 restated: 61.1p) is based on net assets of £31,924,000 (2005 restated: £30,919,000) divided by the 48,502,665 (2005: 50,596,419) ordinary shares in issue at that date.

16 Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2006 £'000	2005 Restated £'000
Profit/(loss) on ordinary activities	**2,650**	(2,948)
Decrease in debtors	**189**	120
(Decrease)/increase in creditors	**(166)**	118
(Gain)/loss on realisation of investments	**(3,456)**	2,214
Amortisation of fixed interest securities	**–**	2
Net cash outflow from operating activities	**(783)**	(494)

17 Financial Instruments

Management of risk

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing approximately 85% of its funds in a broad spread of unquoted or AIM traded UK companies meeting the relevant criteria for venture capital trusts and approximately 15% in fixed interest securities or equities and convertible securities quoted on a recognised stock exchange, this allocation to be held as a reserve and available for second-round financing or investment in additional unquoted or AIM traded companies. The holding of these financial instruments to meet this objective results in certain risks.

The Company's financial instruments 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.

Liquidity risk

The Company's assets comprise quoted and unquoted equity and non-equity shares, short term money market investments and cash. Future short-term flexibility is achieved through the Company's money market and cash resources, proceeds from the disposal of venture capital investments and the listed equity portfolio. As at the year end, the Company had no borrowings other than loan notes amounting to £100,000 (2005: £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. This is mitigated by stock selection.

Interest rate risk profile of financial instruments

The following analysis sets out the interest rate risk of the Company's financial instruments.

	2006	**2005**
		Restated
	£'000	**£'000**
Floating rate	**1,715**	5,641
Fixed rate	**3,836**	1,599
Non-interest bearing	**26,363**	23,651
	31,914	30,891

This note does not include prepayments, which are excluded from this disclosure under FRS 25.

Fixed rate financial asset weighted averages

	2006	**2005**
	£'000	**£'000**
Fixed rate financial assets weighted average interest rate	**5.5%**	9.5%
Weighted average time for which rate is fixed (years)	**1.4**	3.4

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 £2,314,000 (2005: £1,834,000), representing 7.2% (2005: 5.9%) of the Company's net assets as at that date.

The Company's foreign exchange exposure as at 31 October 2006 was as follows:

	2006	**2005**
	£'000	**£'000**
Euros	**1,239**	638
Hong Kong Dollars	**168**	251
Japanese Yen	**–**	110
Singapore Dollars	**171**	–
Swiss Francs	**179**	312
United States Dollars	**557**	523
	2,314	1,834

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Notes to the financial statements (continued)

Fair values of financial instruments

All the financial instruments of the Company are held at fair value as at 31 October 2006.

	2006 Book value and fair value £'000	2005 Book value and fair value Restated £'000
Primary financial instruments:		
Listed and quoted investments	**10,418**	7,912
Unquoted investments	**20,206**	17,489
Debtors: amounts falling due in over one year	**–**	138
Cash at bank	**1,715**	5,641
Other financial instruments:		
Other debtors	**138**	171
Accruals	**(463)**	(360)
Loan notes	**(100)**	(100)

The fair values of the unquoted investments have been determined according to the methods detailed in the Company's Accounting Policies (note 1).

18 Related party disclosures

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 2006, fees of £35,000 attributable to the investments of the Company were received pursuant to these arrangements (2005: £48,000).

19 Commitments

At 31 October 2006 there were commitments totalling £209,000 (2005: £33,000).

20 Post balance sheet events

A final dividend of 1p per share has been proposed and is payable on 15 March 2007, subject to approval by shareholders.

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

The Board consists of five non-executive directors, three of whom are independent of the Company's investment manager.

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 remuneration committee has been appointed as the directors consider the Board to be small). Other matters specifically reserved to the Board include banking arrangements, proposals for changes to the Articles and related party transactions. In addition, the Board carefully reviews the allocation of investments 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	3/4	1/2
RE Burger (appointed 19 December 2005)	4/4	2/2
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 year to deal with matters arising in the ordinary course of the Company's business.

A formal process for evaluating the performance of the Board has been introduced. 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, 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. A performance evaluation is 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. Alan Lamb is being proposed for re-election at the forthcoming AGM. The Chairman has conducted a performance evaluation of Alan Lamb, taking into account the views of all directors. He considers that his performance continues to be effective and valuable and that he continues to demonstrate commitment to the role. He therefore believes that Alan Lamb 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 of the non-executive directors is available on request.

The Audit Committee

The Audit Committee consists of the three independent non-executive directors. Written terms of reference have been constituted for the Audit Committee and are available to shareholders on request. The Audit Committee meets at least twice a year to review the Company's financial controls, the interim financial statements, 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 provisions and advises on accounting issues. The Audit Committee has satisfied itself that the auditors are independent and that their objectivity is unimpaired. It reviews the need for non-audit services and authorises such on a case-by-case basis having given consideration to the cost effectiveness of the services and the independence and objectivity of the auditor. The Board concluded, on the recommendations of the Audit Committee, that the auditor continues to be independent and that its reappointment be proposed to the AGM.

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 6 March 2007 when shareholders will have the opportunity to meet the Board. The Notice of Meeting is set out on page 37. 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.

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 36.

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 in aggregate. Directors' fees payable during the year totalled £37,000, 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 16 and in note 12. This arrangement is viewed as an appropriate incentive plan for those 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 directors' remuneration should be performance related in light of the directors' 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.

	2006 £'000	**2005 £'000**
RA Wright (Chairman)	**15**	15
R Barrow (resigned 22 April 2005)	**n/a**	6
RE Burger (appointed 19 December 2005)	**10**	n/a
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 entitlements to directors' fees for all accounting periods ended on, or prior to, 31 October 2006.

There is no notice period stipulated in the service contracts of the Company with any of the directors. No compensation is payable to directors on leaving office.

The graph on page 1 charts the total return (defined as the net asset value per share of the Company plus cumulative dividends paid) to ordinary shareholders since the date of 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 and the FTSE AIM Index, which are considered to be the nearest available comparables).

The directors' remuneration report forms part of the Annual Report and Accounts of the Company. These were approved by the Board of Directors on 11 January 2007 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 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 16.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Investment Manager's Report that is cross-referred from the Review of the Business section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, the Financial Highlights and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 October 2006 and of its profit for the year then ended;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditor
London, England
11 January 2007

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Quester VCT 4 plc will be held at Mary Sumner House, 24 Tufton Street, London SW1P 3RB at 11.00 a.m. on 6 March 2007 for the following purposes:

As Ordinary business
As ordinary business to consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 6 will be proposed as ordinary resolutions and number 7 will be proposed as a special resolution.

1 To receive, consider and adopt the annual report and accounts for the year ended 31 October 2006, together with the auditor's report on those accounts and the auditable part of the directors' remuneration report.

2 To approve the directors' remuneration report for the year ended 31 October 2006.

3 To declare a final dividend of 1p per share in respect of the year ended 31 October 2006.

4 To re-elect Alan Lamb as a director.

5 To re-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 £514,973.35 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 £48,502.66;

and this power, unless renewed, shall expire at the conclusion of the Annual General Meeting of the Company in 2008 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 resolution which shall be proposed as a special resolution:

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 4,850,266;

Notice of annual general meeting (continued)

(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 2008; 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.

By order of the Board

RJ Drover
Secretary

29 Queen Anne's Gate
London, SW1H 9BU
11 January 2007

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 11.00 a.m. on 4 March 2007. 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 11.00 a.m. on 4 March 2007 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 11.00 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

Manager and Registered Office
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 Advisor
RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditor
30 Finsbury Square
London EC2P 2YU

Quoted 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

Company registered number: 4063505

Shareholder information

Annual General Meeting **11.00 a.m. on 6 March 2007**

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 11.00 a.m. on 4 March 2007.

Dividends

A final dividend of 1p per share is proposed in respect of the year ended 31 October 2006.

Payment date	15 March 2007
Ex-dividend date	14 February 2007
Associated record date	16 February 2007

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme that shareholders may join at any time. Any shareholders wishing to join or to withdraw from the Scheme may do so by writing to the Company's Registrars. Any such communication should be received by the Registrars no later than 10.00 a.m. on 22 February 2007 if the election is to take effect prior to the payment of the final dividend on 15 March 2007. Details of the Scheme's terms and conditions may be obtained from the Company Secretary.

Share price and net asset value announcements

Quester VCT 4 plc'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 UK Listing Authority 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 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 on the share register. The Company's registrar, Capita Registrars, should be notified of any change of address or other amendment, under the signature of the registered holder.

Investor Relations

Shareholders may now view details of their shareholdings via a free online service provided by Capita Registrars. The service may be accessed from the Listed Funds section under the Investor Relations tab 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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London SW1H 9BU
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